SECTION 2: Chapter 1:

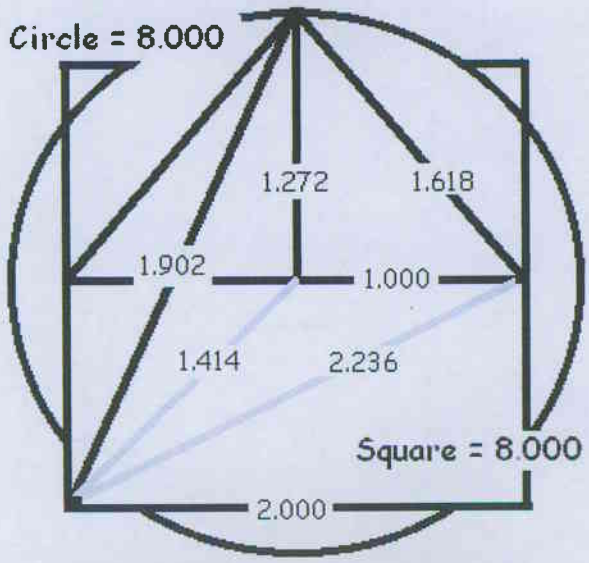
Sacred Geometry – The Cardinal Ratios

Time & Price Analysis of Market Trends is a mathematical approach for comparing the relationships between market highs and lows in both time and price amplitude.

Teachers in the centers of education throughout the ancient world, such as those founded by PYTHAGORAS & PLATO set their pupils to practice the arts of DYNAMIC GEOMETRY and NUMEROLOGY in order to exercise the faculty of intuition.
The ancients taught that any situation in life would be represented by a DYNAMIC PATTERN for which there exists a precedent in nature.

GEOMETRY deals with pure form; philosophical geometry re-enacts the unfolding of each form out of the preceding one.

The ancients devised a canon of proportion. The canon demonstrates the **squaring of the circle** and the binding relationships between the SQUARE, CIRCLE & the GOLDEN MEAN. The circumference of the CIRCLE is equal to the PERIMETER of the SQUARE.



SQUARING THE CIRCLE

This diagram represents what the ancients called the 3 phases of consciousness. The square acts as the base, the pyramid is vertical and the circle dissects the square vertically moving both above and below it.

Natures Law

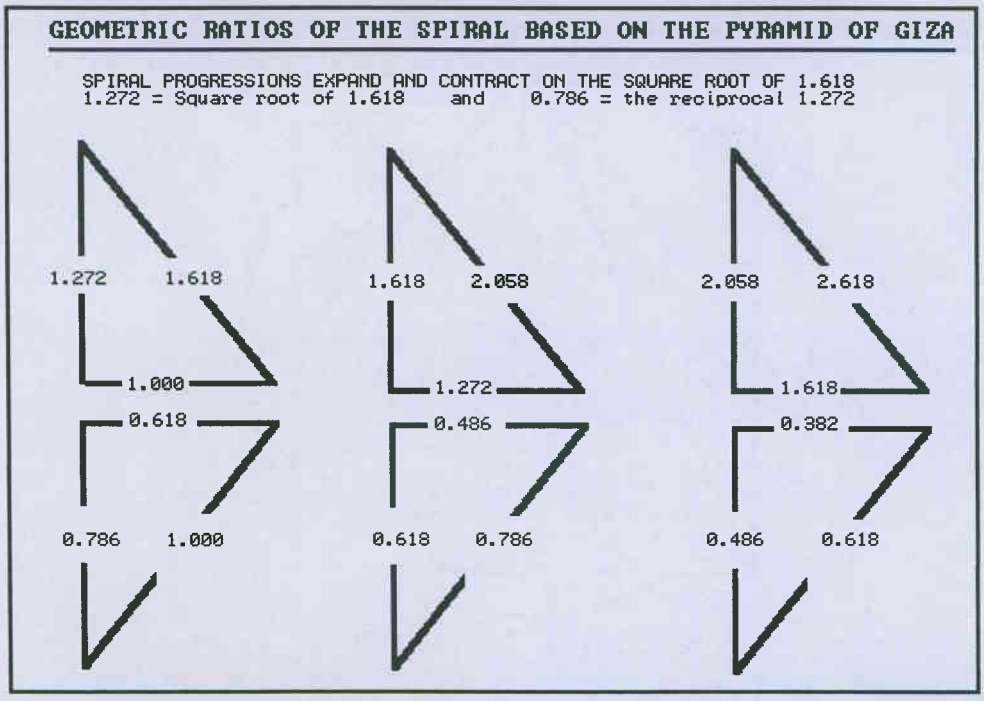
Natural law of growth phases, as we know them today originate from the dynamic cycles within the construction of the Cosmos. Before one can possibly understand the significance of what will follow in this manual there is a need to learn how geometric forms are constructed.

Geometric Ratio Series (1.618)

R.N. Elliott in his treatise, "The Elliott Wave Theory", identified that many market highs & lows in the Dow Jones Industrial Index were formed relating to each other on progressive ratios of the GOLDEN MEAN. Basically what these ratios represent is the progression of cardinal points in a GEOMETRIC SPIRAL.

GOLDEN MEAN	**1.618**
Golden section	**0.618**
Square Root of 1.618	**1.272**

To fully understand the unfolding geometry within a markets structure we need to be aware of the expanding and contracting relationships that occur within the geometric spiral.



Moving from the base of the triangles in the direction of the 90° (right angle leg) - each future length increases by a ratio of 1.272 to the preceding leg.

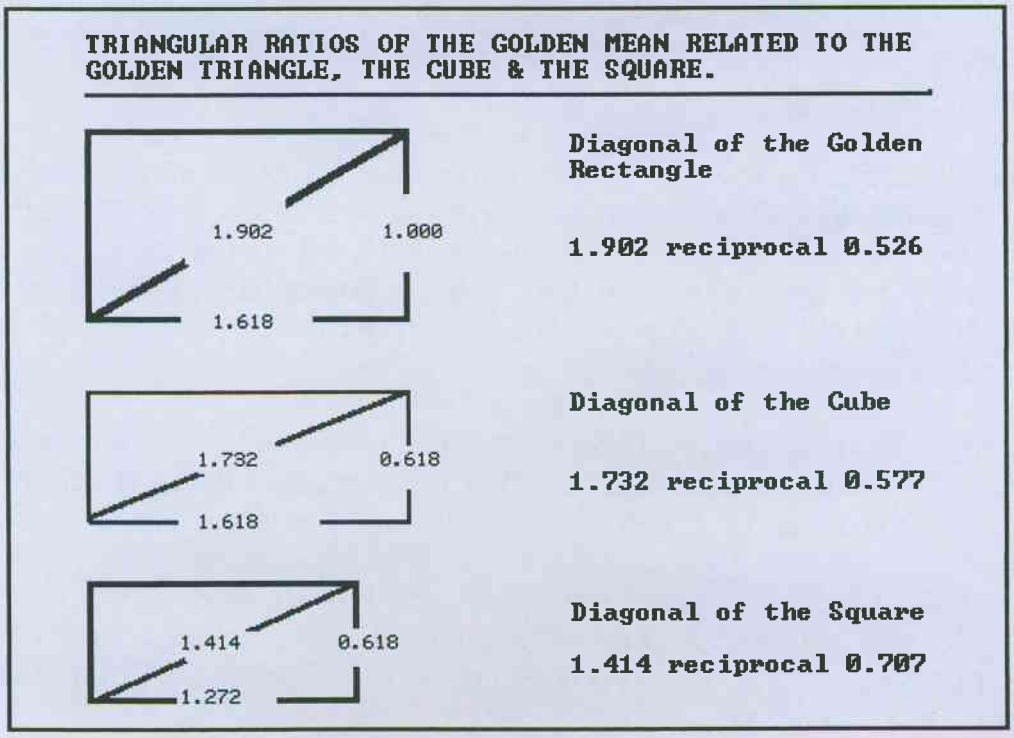
Moving in reverse the legs contract by a ratio of 0.786 to each other. 0.786 is the square root of 0.618, the Golden Section.

The GOLDEN MEAN (Phi) ratio of 1.618 is a growth proportion and appears everywhere in nature, in plants, in seashells and many other places. Also you should know that the planet Venus (the closest planet to the Earth) orbits the Sun 1.618 times for every single orbit of the Earth around the Sun. Put another way Venus orbits once for every 0.618 orbit of Earth.

The Ancients left us a geometric blue print with the diagram of the "Squaring of the Circle". This diagram is also the exact measurements that the Great Pyramid of GIZA was built to. I have always been surprised why this information was never taught to me at school. As a result of my subsequent studies in later life, I have found out many other interesting things, on the strict ways that geometry can unfold and still hold a binding relationship to the "squaring of the circle." diagram.

Over the past 22 years of trading I have witnessed major reversals of trend in all the MAJOR MARKETS I follow, these sometimes defy normal logic when it comes to the ratios involved. But the geometric relationships have been there for all to see. Most people I know have never been aware of them at the time either, so I have come to the conclusion that there is a higher power of influence present when these things happen. Whatever it may be is really not my main concern; all I am interested in is knowing when the market reaches levels of geometric proportion that align themselves to the theory of NATURAL GROWTH.

Using Geometry we can prove the ratio 1.618 maintains a triangular relationship with the square, the cube and the circle. This association is extremely important for our purposes because all geometric forms must rotate from one axis to another if they are to continue too relate in the future.



The Fibonacci Growth Series of Ratios are: -

1,1,2,3,5,8,13,21,34,89,144,233,377,610,985..... every future number increases by a factor of 1.618 to the preceding number and on it goes. But in the true sense of the growth phase things move by a factor or 1.272 - when on the geometric series not by 1.618.

I call these the geometric phases of growth. The key geometric ratios for my Time & Price analysis purposes are: -

Expanding	**1.000**	**1.272**	**1.618**	2.058	2.618	3.33
Contracting	**1.000**	**0.786**	**0.618**	0.486	0.382	0.30

As a novice you may not understand the significance of 2.058 or 0.486 because they are so close to 2.00 & 0.500, but you will in time when you can identify the rhythm.

When the market moves over to a reciprocating unfolding pattern phase of the SQUARE or the CUBE the relationships we can expect to witness are the ratios on the different planes of the conscious – the square ratios and the cube ratios. Sometimes we will experience the ratios of the circle pinpointing market reversal levels at the same time. You must be aware that as the geometry unfolds the ratio progressions move from each level to the next level. No series of ratios will keep signalling reversals consistently – they rotate as the market moves along. One day a 0.618 will arrest a correction the next it will be a 50%, then other days it will be a 0.707 or a 0.786. Then in strong trends it could either be a 0.382, 0.354 or a 0.333 depending on the rhythm of waves in the unfolding patterns.

To understand what I am going to teach you now, you will have to have a flexible mind.

I have already half explained all of this in earlier books but now I think it is imperative I write it all down the way I understand it today. Previous students may have already worked it out but I now have the luxury to explain it all over again. My two years with the Club144 group have enlightened me immensely on how to know where the novice just losses track of what I am on about.

So many unusual things will occur in the market geometry that you have to be aware of what will constitute RHYTHM to understand how the continuing progressions will relate in the end.

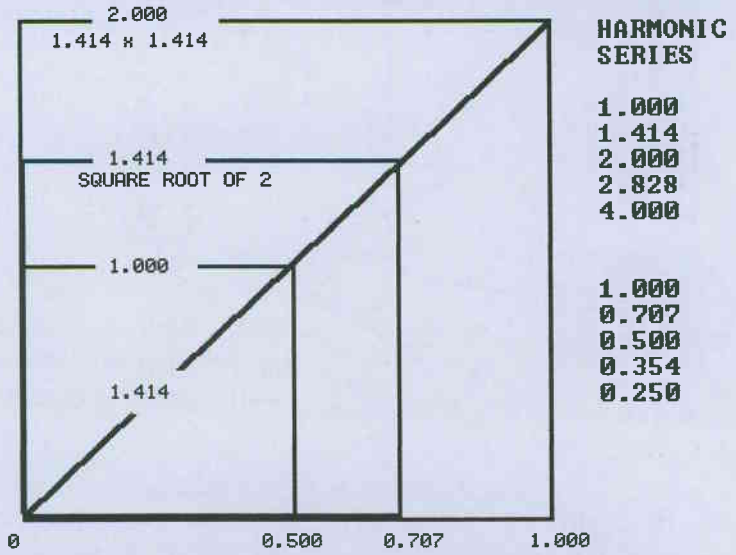
All this may at first seem complicated but if you learn to work with what I will teach you, you can grasp it. It is not that hard, it is all a matter of logic as the market unfolds. I have had no problem using it for well over 15 years and it keeps on working for me.

Harmonic Ratio Series of the SQUARE

HARMONIC RATIOS are generated from the diagonal relationships found within the SQUARE. Musical notes vibrate on ratios of the square. HARMONIC RATIOS relate to the number 2 and square root of 2.

Sacred Ratios of	2.000
Square Root	1.4142
Sacred Cut	0.7071

The Sacred Cut 0.7071 is equally as important as 0.618 when dealing with proportion. Later on we will see how the two ratios integrate within the unfolding geometry of a market structure.



HARMONIC PROPORTIONS FORMED BY THE SQUARE

The works of W.D. Gann have already made famous the use of the ratios in the square and the cube for the analysis of time and price in market trends. Nevertheless I have never seen any mention of the Sacred Cut (a Masonic term) in any of Gann's work. There may have been a reason for this as Gann was a member of the Masonic Lodge and Mason's were required to take an oath not to teach their knowledge to outsiders.

Expanding	**1.000**	**1.414**	**2.000**	2.828	4.000	5.656
Contracting	**1.000**	**0.707**	**0.500**	0.354	0.250	0.177

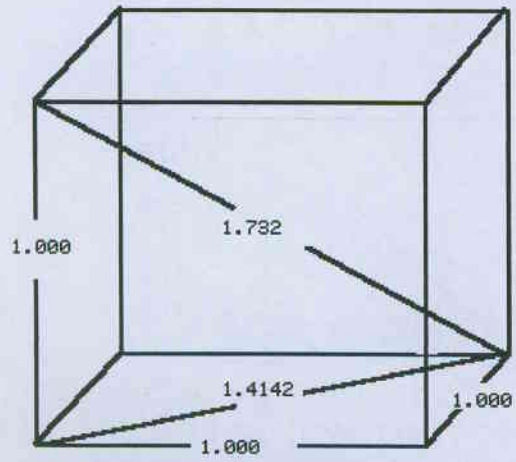
The ratios increase by a factor of 1.4142 to each other or they contract by a division of 1.4142 to each other. I will refer to this series as the harmonic series of ratios.

Third Dimension of the Square

The diagonal of the cube can be used to form a ratio series that continues to hold its pure geometric form in a similar manner to the geometric and harmonic ratio series.

Sacred Ratios of	**3.000**
Square Root	**1.732**
Reciprocal	**0.577**

It is important for you to remember these ratio as you will encounter them many times in the future.



DIAGONAL OF THE CUBE = 1.732
RECIPROCAL OF 1.732 = 0.577

THIRD DIMENSION
OF THE SQUARE

PRODUCES RATIOS

1.000
1.414
1.732

1.000
0.707
0.577

If you review the diagrams on 1-3 you will see how the square root of 3 also can relate to the geometric ratios 1.618 and 0.618 and the square root of 2 relates via the square root of 1.618 (1.272).

The system of ratio relationships evolves in a strict manner and leaves nothing to chance.

The Key Ratios divisions between 1 and 2 for our purposes so far are: -

1.272	**1.4142**	**1.618**	**1.732**

In a contracting mode we use the reciprocals of these ratios: The reciprocal of a number is the ratio of that number divided into 1.000.

The most important division of 1.000 is half or 0.500 and the following between 0.500 and 1.000 are: -

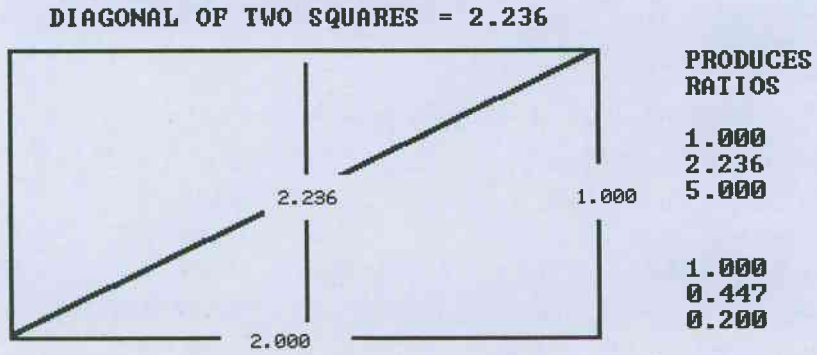
0.786	**0.707**	**0.618**	**0.577**

The 4th Dimension of the Square

If we join two squares together and measure the diagonal relationship between the two extreme corners we get to discover the Square root of 5.

Sacred Ratios of	**5.000**
Square Root	**2.236**
Reciprocal	**0.447**

An interesting point for you to consider about the square root of 5 is that 2.236 is the sum of 1.618 and 0.618. The reciprocal of 2.236 is 0.447 and is also an important ratio for our consideration.



Arithmetic Ratios

ARITHMETIC RATIOS are generated from the simple division of whole numbers by other whole numbers. A few examples are listed below.

One Quarter	0.250
One Third	**0.333**
One Half	**0.500**
Two Thirds	**0.667**
Three Quarters	0.750

Arithmetic ratios will play a part in the construction of geometric forms as a market works between the major cardinal ratios. The ratios that will form ahead can become predictable. Each new geometric form is working itself out from the way the previous form has been unfolding. This at first may seem difficult to recognise because we have so many ratios to consider but it is possible.

If you wish to make a complete study of all these ratios and their origins I would recommend the book SACRED GEOMETRY by Robert Lawlor, published by THAMES & HUDSON.

Rocket Science

In the past 18 years I have had the misfortune to discover the difficulties new students run into when they are confronted with more than 3 things to consider. I have to tell you that it all seems like some type of Rocket Science in the beginning. But I have ways of working with it that can reduce the confusion most of the time. It seems now that I am retiring that I should make a concerted effort to try and clear up the picture for all to see, instead of just a select few.

Most theories on Price analysis published before I came along taught students to use the ratios of 0.382, 0.500, 0.618, 1.000, 1.618 and 2.618 exclusively, as if that wasn't hard enough! Gann methodology taught students to work in eighths, i.e., 1/8, 2/8 (1/4), 3/8, 4/8(1/2), 5/8, 6/8, 7/8 et cetera. Gann also taught you to work with the thirds, 1/3 and 2/3rds. This has just confused the issues even further.

Students often ask me, what is important? We have so many ratios to consider that the possibilities are endless. I agree and I wrestled with the problem for many years before it became clear to me.

I came to the conclusion that every geometric form had to make some LOGICAL SENSE when it came to proportion. If it didn't then I could cast out the ratios ahead that did not fit the unfolding geometric form.

What is important to remember all the time is this: -

If a geometric form is working out relationships to say the square, then the next cardinal point of the geometric form will relate on ratios of the square. If the geometric form is currently working along on geometric ratios (the Phi group) then the next cardinal point will relate to the Phi group. I refer to this phenomenon as RHYTHM. The same goes for geometric forms working to the Arithmetic group of ratios.

The benchmark division of 1.000 is a half (0.500) so that is where we start. Equality is 1.000 to 1.000 and double is 2.000. At least one third of the time geometric forms will unfold on the Phi series (1.618 and sequences thereof) proportions of 0.382, 0.486, 0.618 and 0.786. At other times the sequences will switch to harmonics or the ratios of the unfolding SQUARE, that is why we get ratios of 1.4142, 0.7071 and 0.354 determining proportions of importance. Then we have the 3rd dimension where geometric forms take on proportions of 1.732, 0.577, 0.333 and 0.667. It all becomes a matter of logic to work out what the geometric form is expanding or contracting to.

Before you determine that a market level is important you must consider the unfolding geometric form, if it makes logical sense then go with it. If not wait until the picture becomes clear.

Geometric Proportion:

Besides the cardinal ratios I have been discussing so far we have to consider the rectangle of two squares.

This could mean that we need to consider every ratio of importance factored by 2.000, what I mean by this is that some geometric forms will contain proportions of 0.764 (2x0.382) or 1.236 (2x0.618) and so forth.

At first these proportions will not seem important but if you study the completed geometric form at its conclusion they will begin to make sense.

To become properly proficient at identifying the geometry in forms you have to look above the horizon some times and consider the myriad of possibilities. No one said this would be easy as it is a scientific art form and requires logic to work it to its final conclusion.

Without patting myself on the back I have been able to understand all of these things. I have also been able to get other people to understand all these things. Not to many but I have found my teaching has improved with the years I have been at it.

It is important for me to get my message through to the students who have come to me for help. Nothing much else matters to me anymore as I have everything I want in life and if I don't have it I can buy it next week.

Before you can become proficient at identifying the future geometry in the markets you must have a thorough knowledge of the geometric possibilities. You can only get this knowledge by working back over the existing geometry that has unfolded beforehand. I have done all this for years and years so it has become second nature to me. Sometimes I take a little time and just sit down with a chart and pull it apart for hours to reinforce the principles of geometry I have learnt over the years.

It is amazing when you have a clear head what you can see.

The bottom line to all of this though is that the ratios must make SENSE in the progressions otherwise they just become RANDOM numbers and are not worth a bumper.

For trading purposes we must be sure that we have a RHYTHM in the ratios if we are out to select a price point that the market should reverse trend on. And I guess that is the only reason why we endeavour to use these methodologies. We want to have an edge against the other market players. We want to know when to buy and when to sell as fast as the market can tell us. I have become pretty good at it so there is no reason anyone else can't learn to do it.

Section 2: Chapter 2:

Geometric Ratios in Market Corrections:

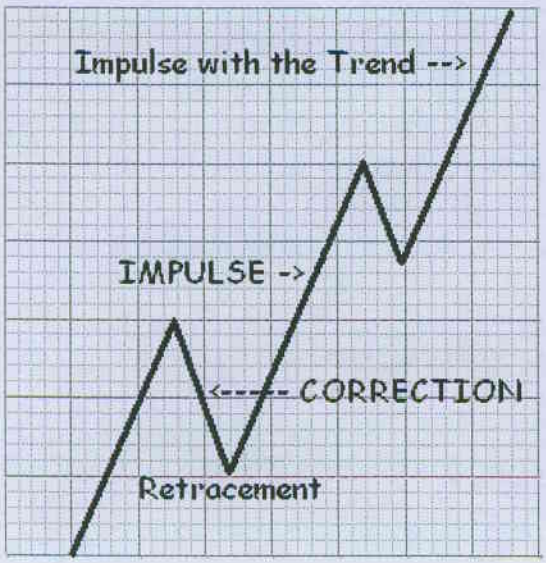
In previous books I have made a more than adequate explanation of the way wave movements can relate geometrically but I am going to write a complete new explanation for this text.

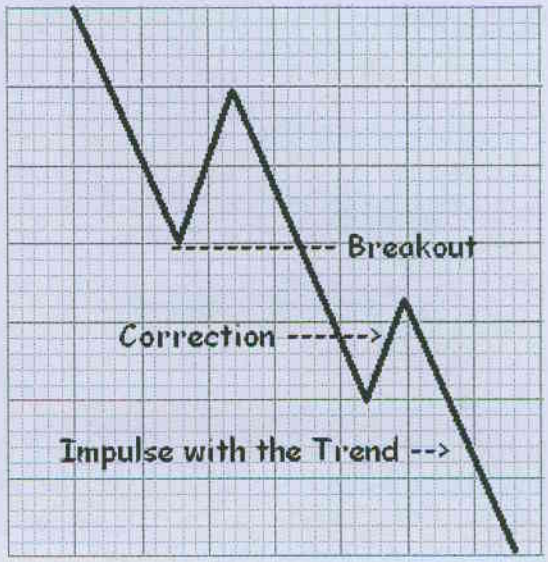
The basics of the theory that market waves must relate geometrically hinges on the Elliott Wave Theory.

Elliott stated in his theory that, "All Waves of similar degree will relate geometrically in Price Amplitude".

Nevertheless because of the complexity and the way this phenomenon can occur we need to approach the theory in a simplistic way first and then extend our views to include more complex thinking.

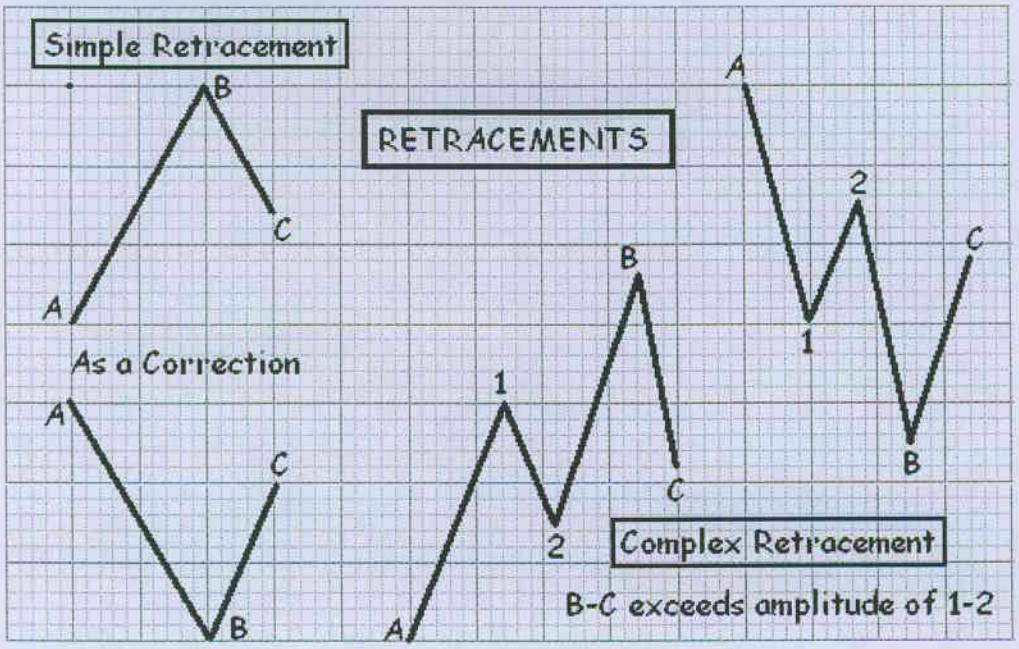
To begin with the current market wave may be a correction to a longer-term trend or it may be a continuation of a larger degree trend.





Just so we have our facts straight a MARKET WAVE is a leg either up or down between obvious swing points. The main direction of the waves will determine if we are in a bull movement or a bear movement.

PRICE RETRACEMENTS:



Price retracements are corrections in an ongoing trend.

Price retracement levels are our number 1 tool when we are looking for levels where the market will reverse and resume its larger-degree trend.

The 38.2, 50 and 61.8 are the major ratios we need to focus our attention on because these are the levels that even the novice analyst has been taught to monitor.

Just the same the 38.2 – 50 – 61.8 will not mark the reversal points more than about one third of the time. There will be times when 33.3, 35.4, 44.7, 48.6, 57.7, 66.7, 70.7 and 70.7 will SQUARE THE GEOMETRY.

It is all a matter of what went before to determine if the 38.2 – 50 – 61.8 will work or not.

It may seem complex to you right now but once you know all the other ways that waves of similar degree can relate you will have a 90% chance to determine when the levels will work for you.

To really understand what I am saying you are going to have to be patient and take it one step at a time until you can grasp the intricacies of market geometry and how it is the most powerful trading tool you will ever learn.

But before we go on just let me say that a price retracement level on a 38.2 – 50 – 61.8 on its own is of no value to you unless you can tie it into other important criteria that will meld the geometry of the current waves together.

Market Geometry is not as simple as many of the so-called Guru's will try and tell you, but! It is not difficult either if you know the approaches you have to follow to keep everything about Elliott's theory in perspective.

I have a 4-way test that I apply to retracement levels before I trade off them, the test determines if they should mean anything. We will get to that later but before we do we need to discuss all the possibilities.

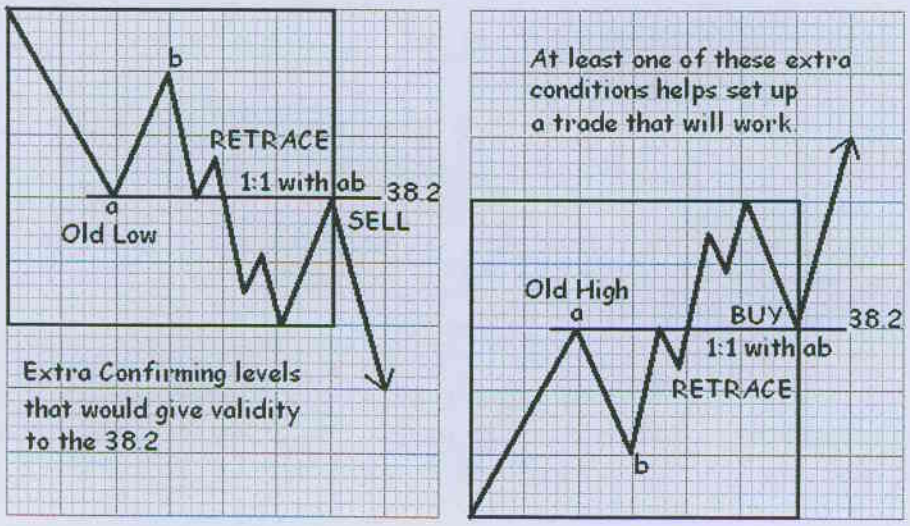
When a market is heading into a retracement level price that has the potential to reverse the current move you will need to see something else that agrees with the geometry.

These could be:

1. The current leg is reaching a 1:1 with a similar degree move that went before.
2. Or maybe it's that the current leg is approaching a previous lesser degree support or resistance from the past and the price will SQUARE a retracement level when it tests it.
3. Then there could be an old top or bottom that lines up with the retracement level you are focusing on.

Let's take these possibilities and I will explain what I mean.

MARKET RETRACES 38.2 – 50 – 61.8 on a 1:1 with a prior correction and retests an old low or high:

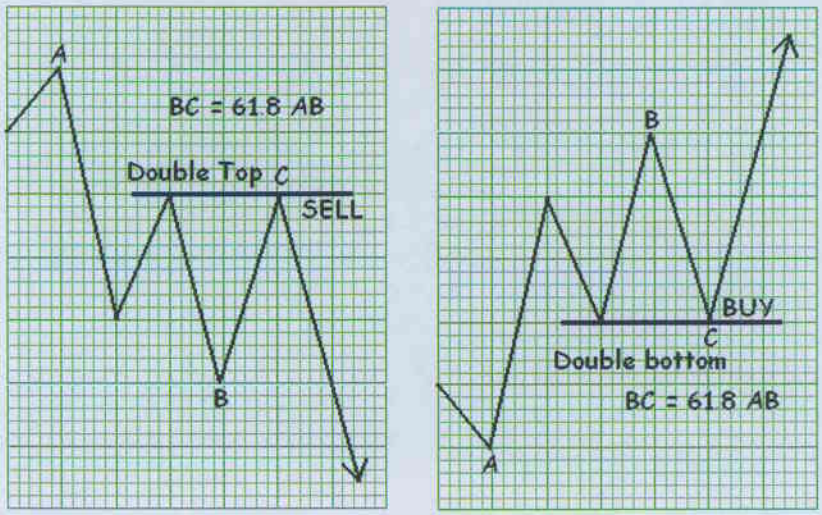


You can apply the same principle to a 44.7, 57.7, or even a 70.7 and 78.6 retracement at times.

The point really is that you should always have at minimum 2 good reasons to trade against the current move for a reversal if you want to remain in this business for the rest of your life.

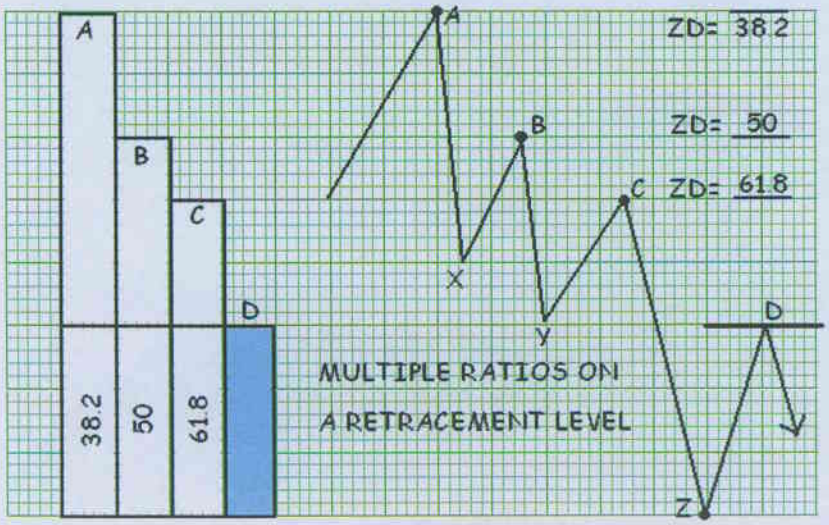
Trades taken using these principles have the ability to be traded with very low risk. When you become proficient at setting up your charts the right way you will see the opportunities in advance.

Another good place for a reversal in a corrective move is when you get dual retracement levels falling on the same price.



Then there is another complex situation that arises on occasion that you need to be aware of.

Multiple combinations at a level.



A situation like this would mark a reversal at point **D** 95% of the time. If it didn't then you would reverse long immediately. **D** then becomes support.

These situations are set up well in advance because if you look carefully there are progressions in the ongoing trend.

1st of all XB was a 50% retracement of AX.
2nd YC was a 38.2% retracement of AY and a 61.8 of BY
3rd YC = XB

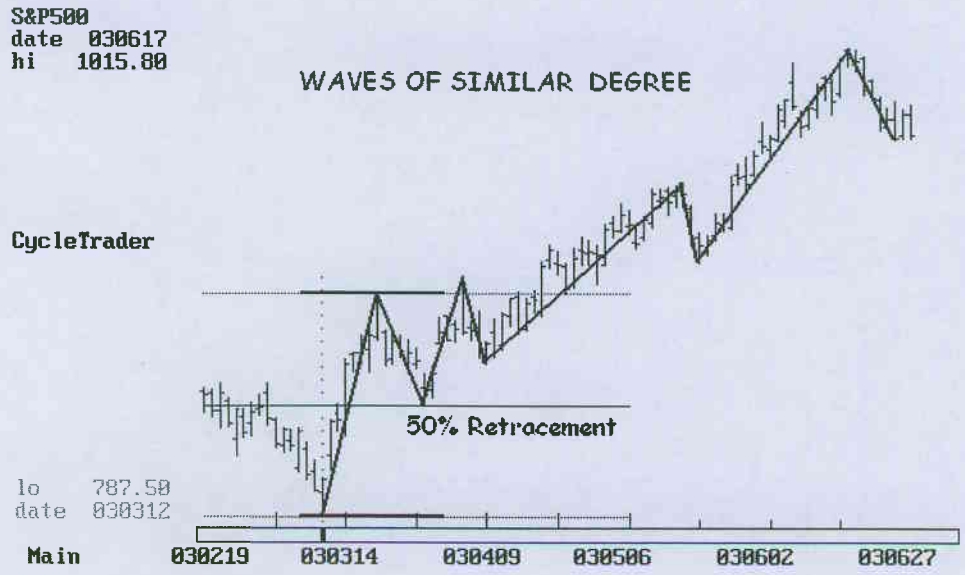
If you do your work carefully you should never miss opportunities like these.

They could fall on a different combination of ratios such as 66.6 – 50 – 33.3 or 70.7 – 50 – 35.4. Just as long as they are in a similar geometric progression they are important.

THE 50% PRICE RETRACEMENT LEVEL:

The 50% level of any previous range is an important geometric point to be observed for a reversal of trend. The 50% level is normally tested in the early stages of any new trend.

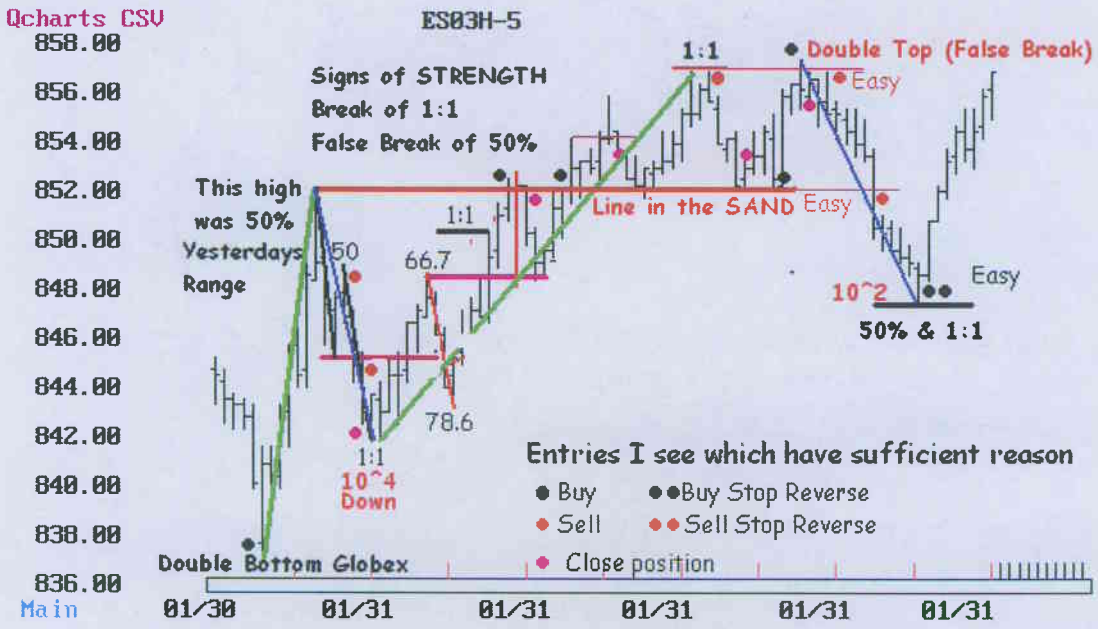
Here's a recent example from the S&P500.



On a day-to-day basis the 50% level of the intra-day range, the last 3-day or 2-day swing or last minute swing is an important level to monitor for trading opportunities.

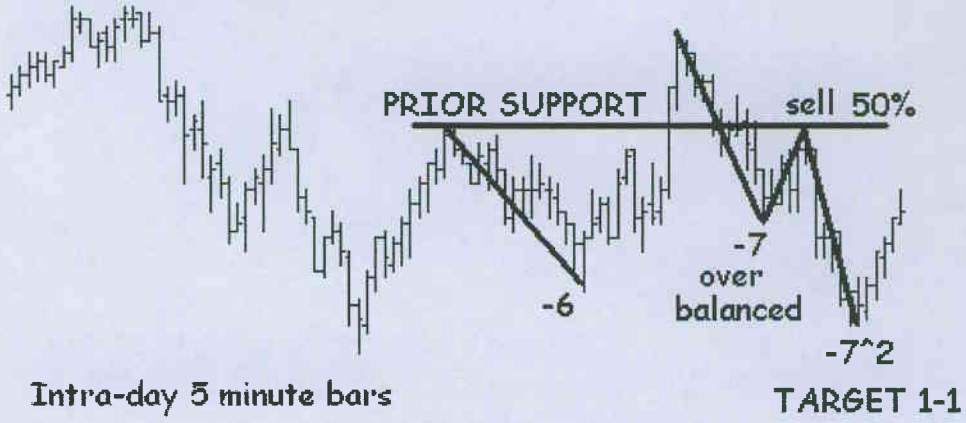
Traders have been educated to buy or sell off 50% levels and they will place orders at them in advance. You may only get a bounce at them sometimes so if the market then breaks the 50% level it is telling you it is going further in the same direction and gives you the opportunity to rejoin the ongoing trend.

Here's an example of what I am saying and it happens very regularly when you start working with the intra-day market. The first 50% arrested the advancing correction to the prior 2-day range and the second 50% was support on the same days trading. Notice how the market kept coming back to test the 50 level after it broke through it. On the 4th attempt it broke back through and couldn't find support until it arrived at the 50 of the total range for the day. It was only a 5-point breakout but still 5 points on 10 contracts is 50 points ($2500) with no risk whatsoever. The second 50 was also a buy point as it coincided as a 1:1 equal to the morning correction, definitely not a place to hold your short to see if the 50 would break.



We are getting just a little ahead of ourselves with the sell at the 1-1 in green but this was a chart I had prepared for my S&P Diary, in fact many of the charts I will use are ones I have been gathering together for some months.

Here is another way you can use the smaller degree 50's to get into a low risk position. You have to make sure it coincides with a prior support of some significance and you would not risk more than 1 point on a trade entry like this one. The trigger to take the trade in the first place is the 7 points down has over balanced the prior 6 points correction.



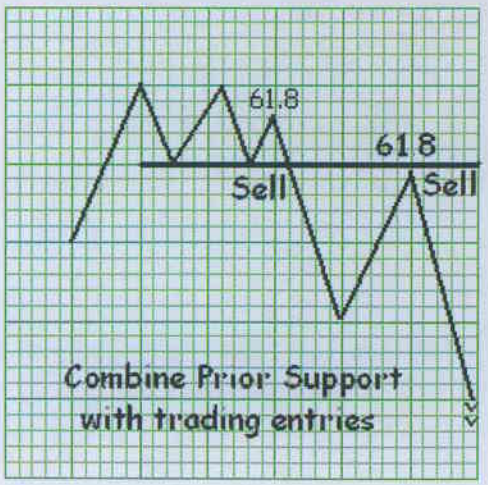
You must always have several reasons for taking a trade if you want to be a winner. The more reasons you can find the better.

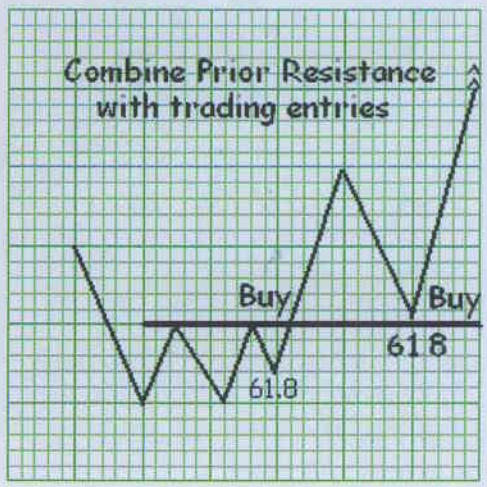
THE 61.8% RETRACEMENT LEVEL:

The same principles apply for trading the 61.8 retracement level as trading the 50 retracement. You can use the 61.8 retracement on moves down to as small as 4 points but it becomes so close to a 50 it does not matter much.

The 61.8 will commonly occur in the early stages of a new move, say for instance the first correction after a double top or double bottom.

It can also occur in the middle of a wave series and is a very common retracement level in the S&P500 futures.

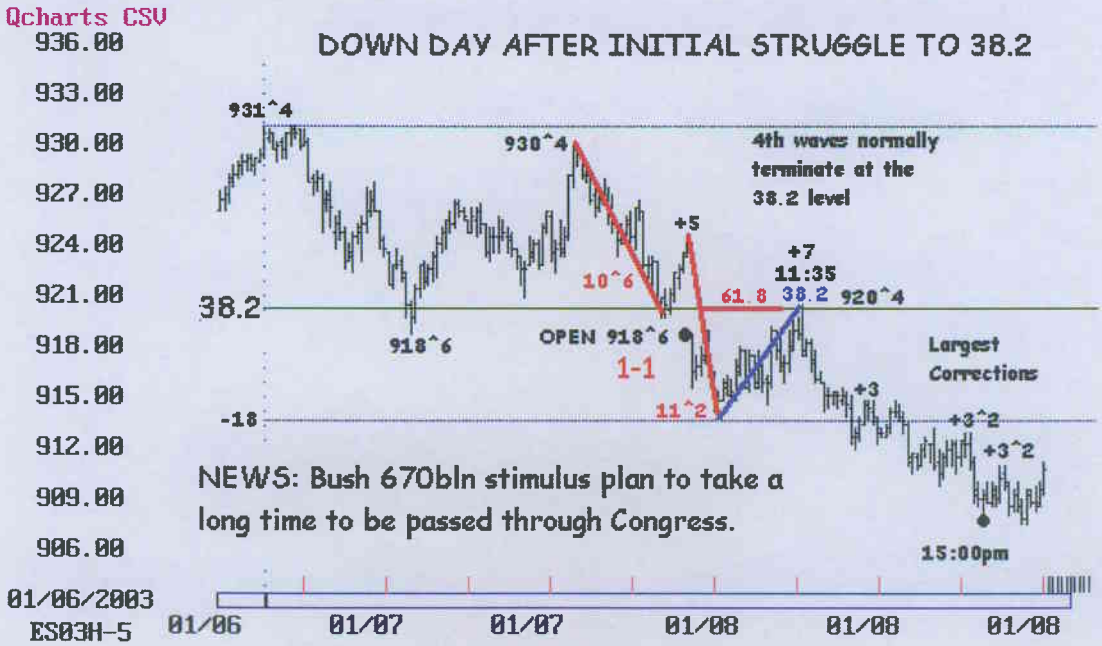


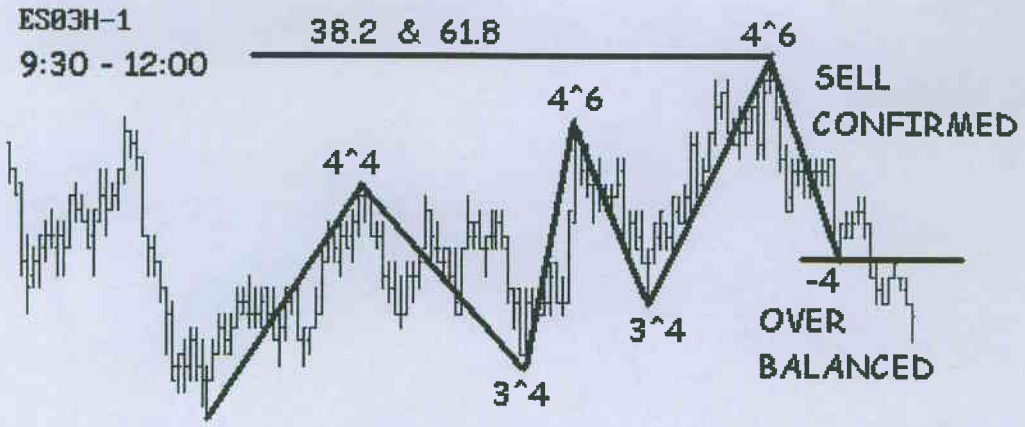


THE 38.2% RETRACEMENT LEVEL:

The 38.2 is suited more to larger ranges than the 50 or the 61.8 retracements.

The 38.2 nearly always precedes a continuation of trend after the market has had one or more prior corrections in the current series or the initial thrust is a very strong and expansive move. The daily or 2 day trend will have clearly changed direction before you can rely on the 38.2 as a solid level to anticipate a reversal and continuation move taking place.





I am putting this chart in here, as this was the way the market traded into the 38.2 & 61.8 shown on the previous page. I will explain the implications of the 1:1's going into the high for the day as we move on. But for the moment you can take it from me that this geometry was a signal that the chances the 38.2 would stop the market in its tracks was a 100/1 ON bet.

Here's another instance of a 38.2 retracement in the bear market from 2000. The high in January 2002 was an exact 38.2 on the SPX (Cash Index). The prior waves of similar degree had made a 50 retracement at the May 2001 high.

The correction from the October 2002 low retraced 23.6 which is 0.618 of 38.2

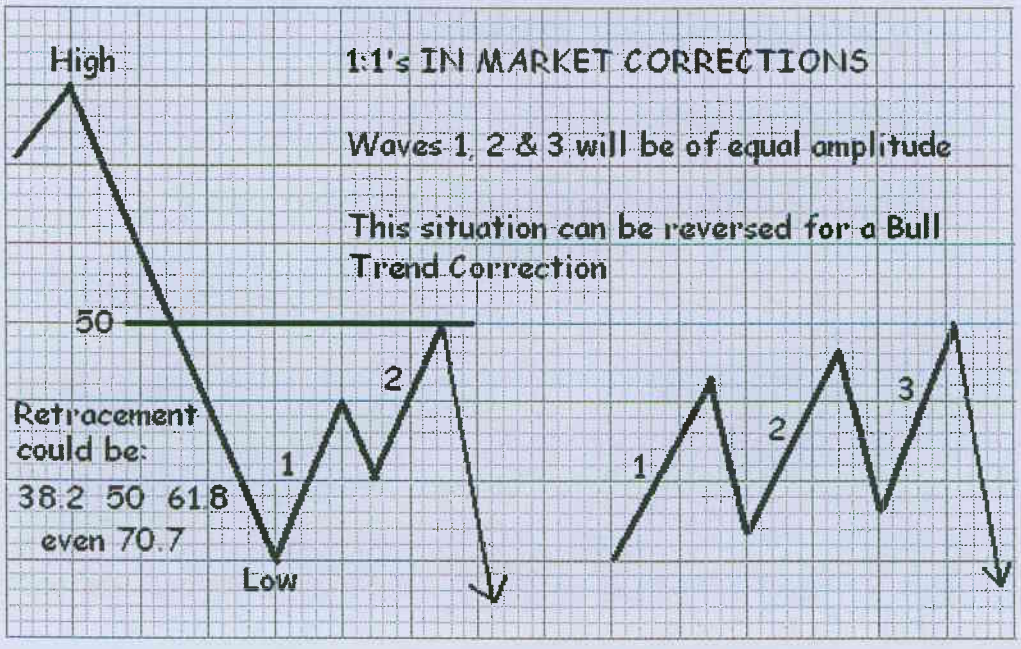
At the time the 23.6 had bearish implications and the market did decline 167 points down into the March 2003 low.

1:1 PRICE MOVES WITHIN CORRECTIONS:

1:1 moves are very common in the S&P500. I have been teaching this phenomenon to students for many years.

They can come in two's or three's most of the time and offer a possible confirmation that the trend will reverse if the end price falls on a geometric level of the wave of similar degree that the market is correcting to.

This diagram should explain what I mean.



Knowing what is possible, will give you the EDGE to work out where the market can go to and where it can't go to, this will often tell you what it is most likely to do next.

When you break levels that historically have a history of working the market is telling you the current trend is strong. If the market reverses on the predictable levels it is telling you that the prior trend could still be strong. Whichever way the market goes it is telling you a story and if you listen you will see the next trade set up easily.

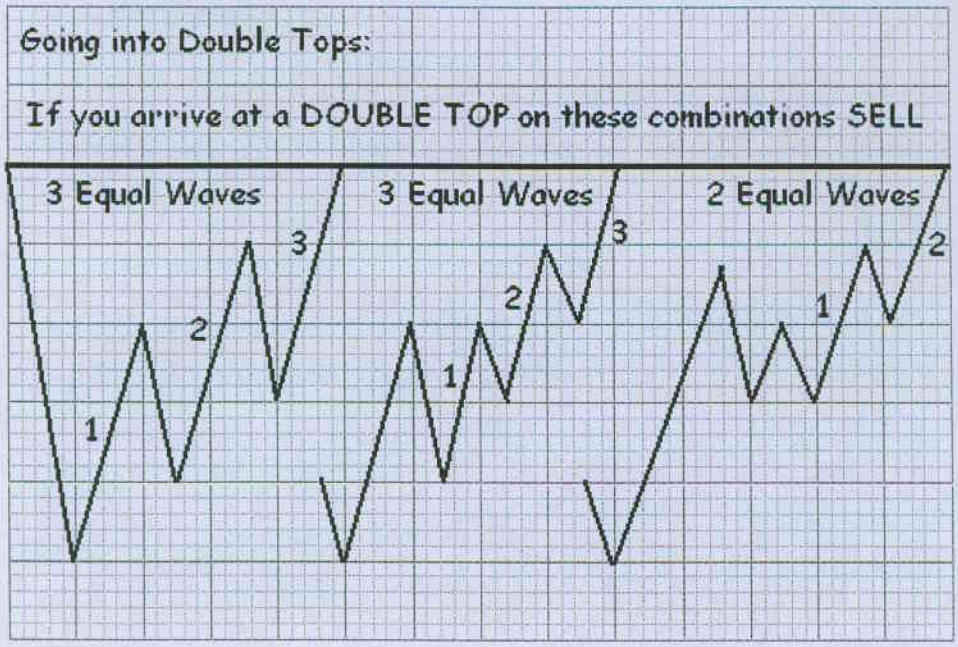
The first thing I do when I realise the market is in a correction is to calculate the retracement levels of the current ranges and then apply the 1:1 rules to see if they will come out at any of the important retracement levels.

If the levels break I stay with the move in progress, if the market reverses I go with the new direction following the same principles.

By doing this I can remain flexible and am always prepared for a situation where I can take advantage of any fast moves the market may make.

GOING INTO DOUBLE TOPS:

When you are heading into a Double top it is important that you have some wave equality as the smaller waves have to "Square out" at the top to give you a clear indication to SELL.



There are quite a number of other possibilities but these are your best bets.

Bear in mind the double tops I am referring to could occur over several days or even several weeks.

For the double top to attract selling pressure the News should be in agreement and the wave structure heading into it should make sense.

If the wave structure and the News is not in agreement then the prudent thing to do is to wait to see what happens or buy a breakout if it comes.

Anytime you get a significant reversal on a double top you will have plenty of time to evaluate the situation and establish a position as the evidence gathers itself.

If the top turns out to be important you will get the signals as the future market unravels and you can use all the other techniques we have been discussing to establish a short position.

Short-term double tops are more reliable over a 2 or 3 day trading period. The longer apart they are the less reliable they become and are likely to be broken or the market will never reach them and can just fall short.

GOING INTO DOUBLE BOTTOMS:

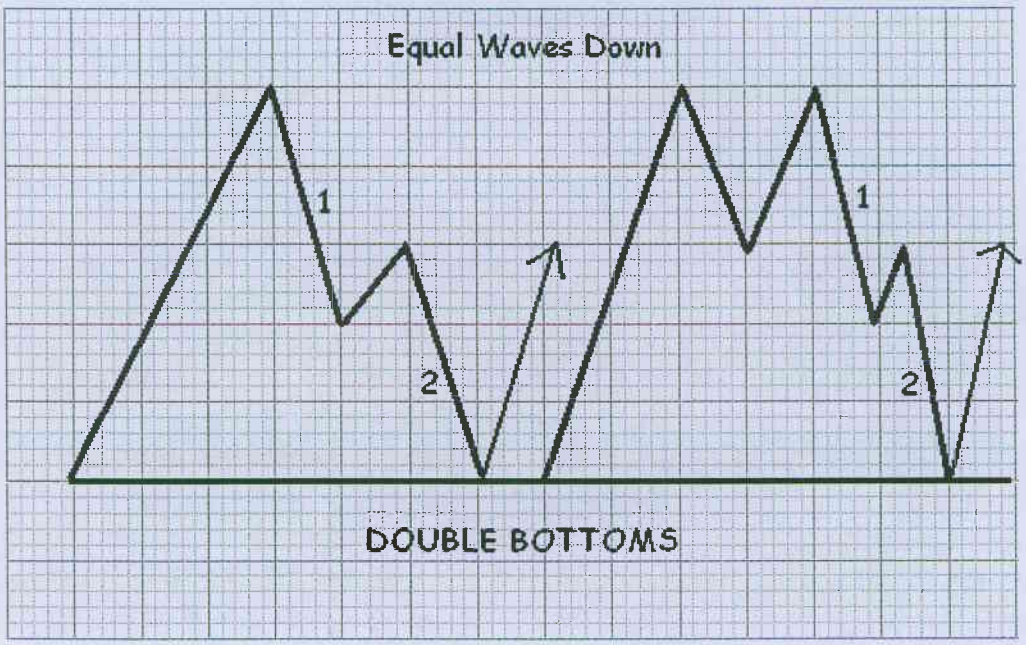
The only practical rule I have for knowing that a double bottom will hold is if there is an obvious 1:1 going into it.

Knowing for how long is always a problem in a falling market.

Before I would feel safe that a bottom is in for any reasonable amount of time the current 2 or 3 day swing would have to retrace more than 38.2%.

Major market lows seldom occur on double bottoms, they are either exceeded by a little (false breaks) or they just don't get there.

Nevertheless double bottoms occur all the time in the intra-day picture but they are normally only good for intra-day trading.



The only practical advice I can give you other than this is to wait and confirm there is a bottom in before you trade it.

If the original bottom you are going to double with is an existing cardinal ratio retracement of a larger range then it has the potential to hold. You will have to evaluate that situation as you find it.

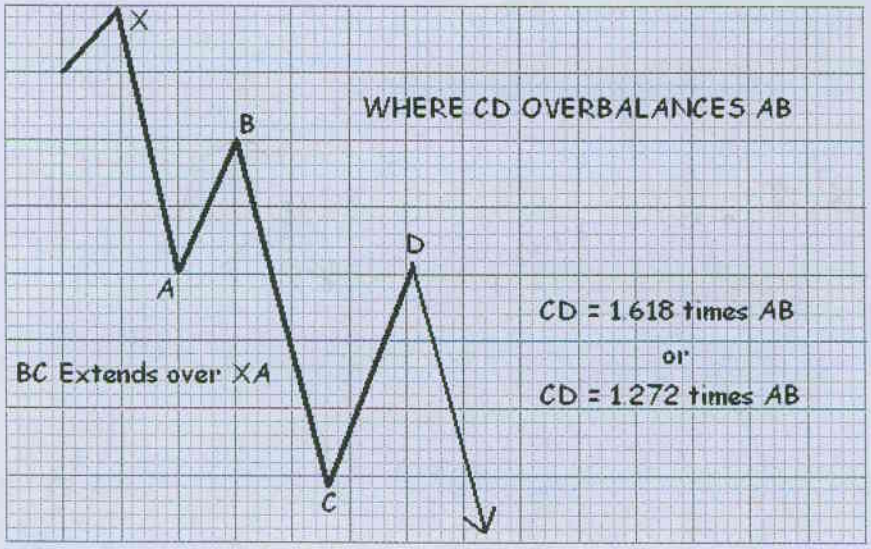
When you see how structures can relate overall in bull and bear trends it may add some light to your overall analysis depending on the current market position.

POSSIBLE EXCEPTIONS TO THE 1:1 OVERBALANCING RULE:

When the current correction overbalances a prior correction of similar degree, i.e., the market correction exceeds the 1:1 measurement of the prior correction.

The next geometry where the market correction may terminate could be on a 1:1.272 or a 1:1.618 alternate wave relationship.

A correction in a bear market could take on the following form.



Regarding the overbalancing rule:

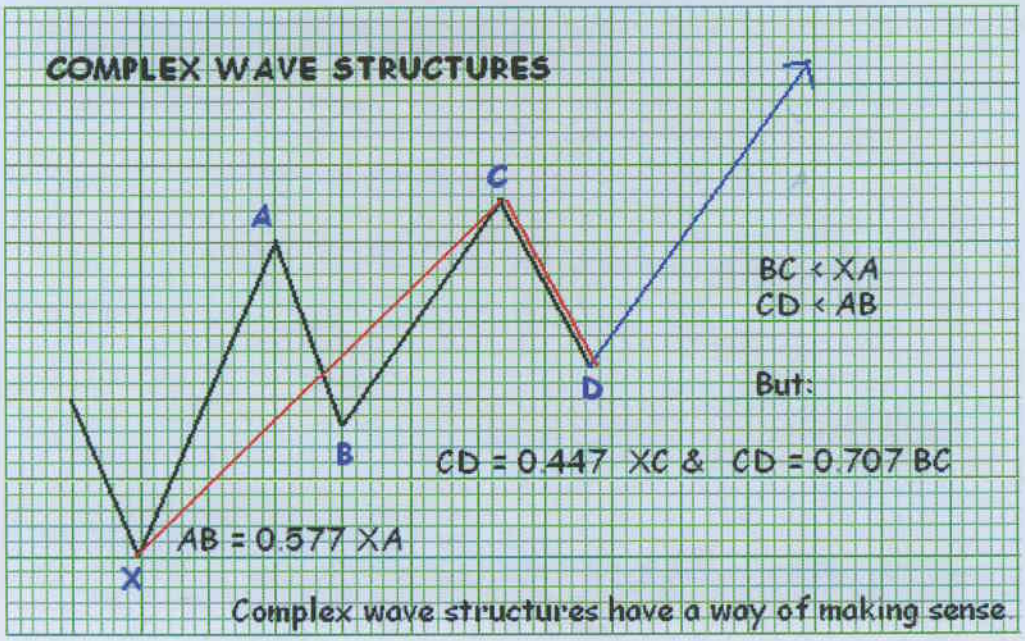
If a correction in a trend (CD) overbalances a prior correction of similar degree (AB) the normal conclusion is that the trend has changed to a higher degree. Nevertheless you should still be aware that the correction can in some circumstances extend and finish as a ratio of the alternate wave correction, i.e., CD:AB in Ratio such as 1.272 and 1.618 are the main possibilities. The chances this will happen are more certain if for instance CD were a ratio of XC or BC or both. A ratio of 38.2 or 50 of CD to XC would be a better reversal signal at D in most instances.

When you have a situation where the market reverses in circumstances such as this, on a greater ratio than 1:1 of the Alternate wave of similar degree, don't treat it as a guaranteed continuation sign until the market has retraced more than 61.8 of the CD leg.

I have seen many instances where markets do continue on down, but I have also seen many instances where the market will retrace only 50% of the CD leg and then reverse back on up and continue on up. The best thing to do when the current correction has overbalanced its Alternate is to take each geometric signal as it comes and see how the market reacts to it.

COMPLEX WAVE STRUCTURES:

Here is an example of some ratio combinations that can occur within market structures when everything else other analysts rely on appear to be unclear.



I am not going to explain what it all means, I just want you to be aware that through the use of sacred geometry it is possible to explain wave structure adequately enough to justify the ELLIOTT WAVE THEORY.

This is an actual example of how a series of waves of larger degree in an uptrend in the S&P market came out. The smallest wave-amplitude in the series was **CD** at 34 points.

In this case the correction that terminated at **D** was what I would call a RUNNING CORRECTION.

Point **D** coincided with a retracement of **BC** at 0.707 (reciprocal of the square root of 2) and a retracement of **XC** at 0.447 (reciprocal of the square root of 5).
These ratios came out within an accuracy of 0.002 over ranges of XC = 76.4 and BC = 47.9 on the S&P 1st month futures continuous prices.

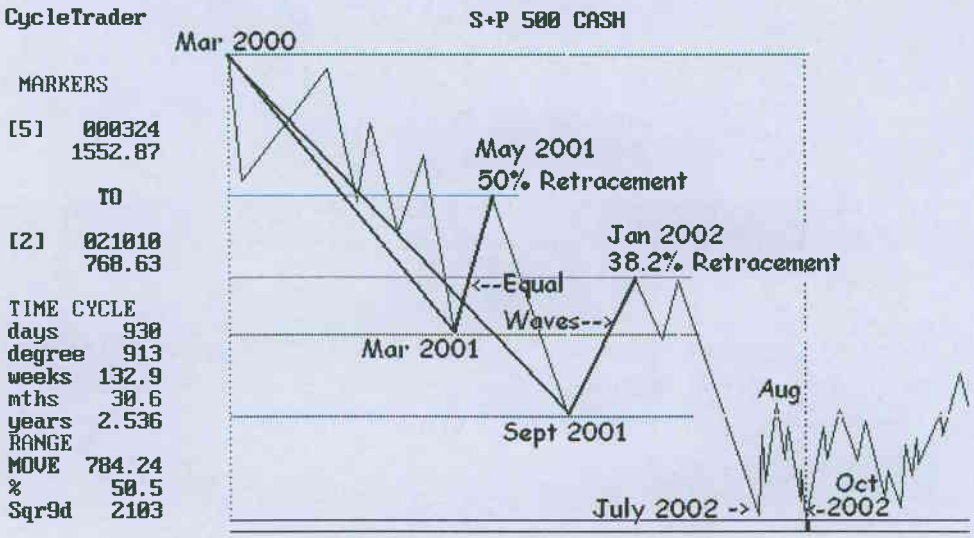
As you pursue your studies in the intricacies of the market geometry I would advise you to keep things simple when it comes to trading. Nevertheless it is imperative for you to understand that these things actually do exist.

Section 2: Chapter 3:

Bear Market Trends:

We are very lucky now to have a completed bear market in the S&P to study.

During the bear market from 2000 to 2002 I was never wrong about the market direction for more than a day, I was able to identify every major turn along the way using sacred geometry of time and price. As others were predicting the bottom time and time again I remained focused on the downtrend until the market had declined 50% in value. Notwithstanding we traded all the rallies up from progressive lows when they were in progress.



The two major corrections in this bear market were predictable in as much as they were perfect examples of ratio in waves of similar degree.

The March - May 2001 bear market rally terminated at 50% of the total move down from March 2000 to March 2001. Points in this rally were 235.

The September - January 2002 bear market rally terminated at 38.2% of the total move down from March 2000 to September 2001. Points in the rally were 233.

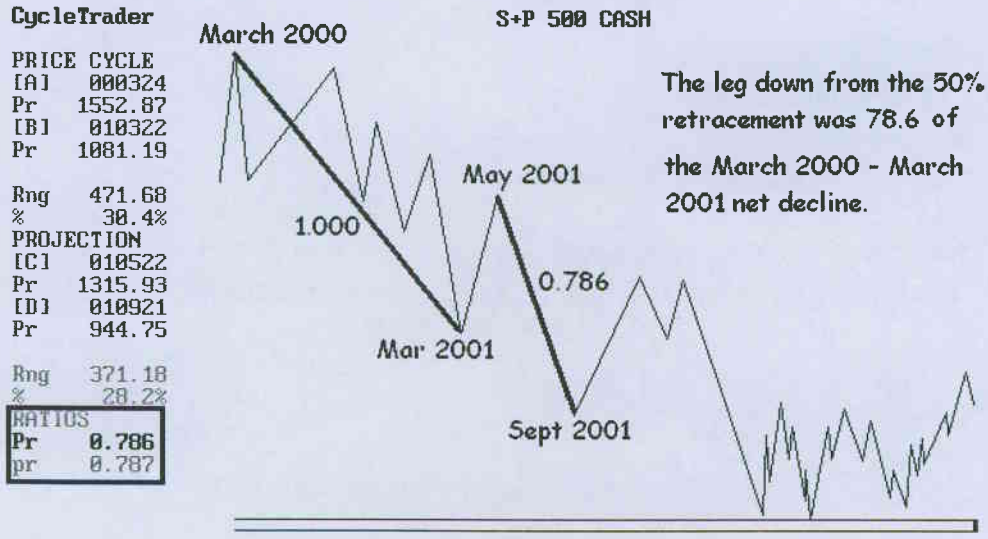
The two consecutive bear market rallies were equal in amplitude.

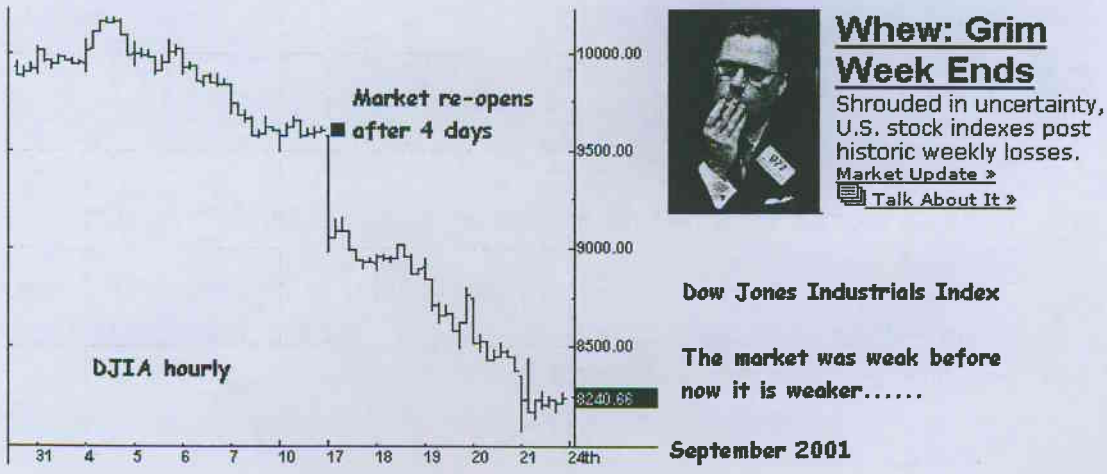
The first thing to remind you of is that corrections should never get larger as a bear trend progresses. If they do then it is reasonable to assume the bear trend has terminated. The current high (June 2003) is now up 246 from the October 2002 low and would indicate higher levels to come in the future.

The May 2001 high was a no-brainer at 50% of the existing bear market and implied further downside to come. The economic reports were becoming increasingly negative at this top.

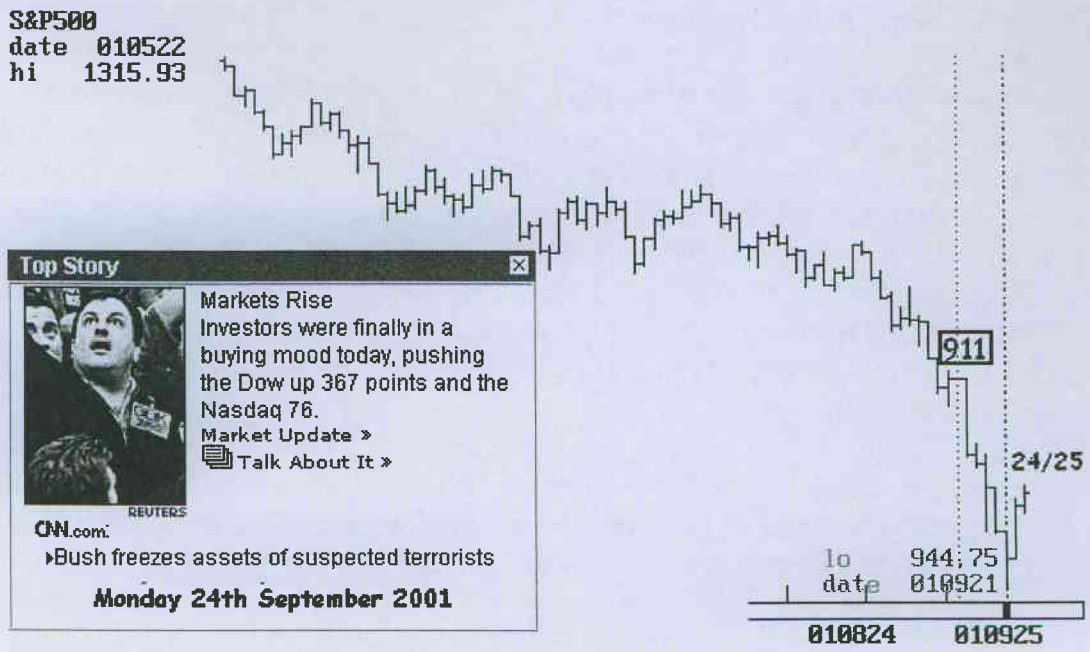
The January 2002 high was also a no-brainer at 38.2% of the then existing bear market. There was very little doubt that the 38.2 and the 1:1 were going to mount a formidable technical obstacle for the market at the time. It was becoming more and more obvious that the events of September 11, 2001 were having a devastating effect on business activity; the airline business was in a disastrous state. The Fed had dropped rates significantly by this time but unemployment was rising at a rapid pace and we were starting to hear news of massive bankruptcies. As more and more bad news came to pass the market just continued to sell off.

The September 2001 low support came in 10 days after the 911 disaster and to be honest no one could have predicted this low in advance. But by taking things one day at a time it was clear when it did.

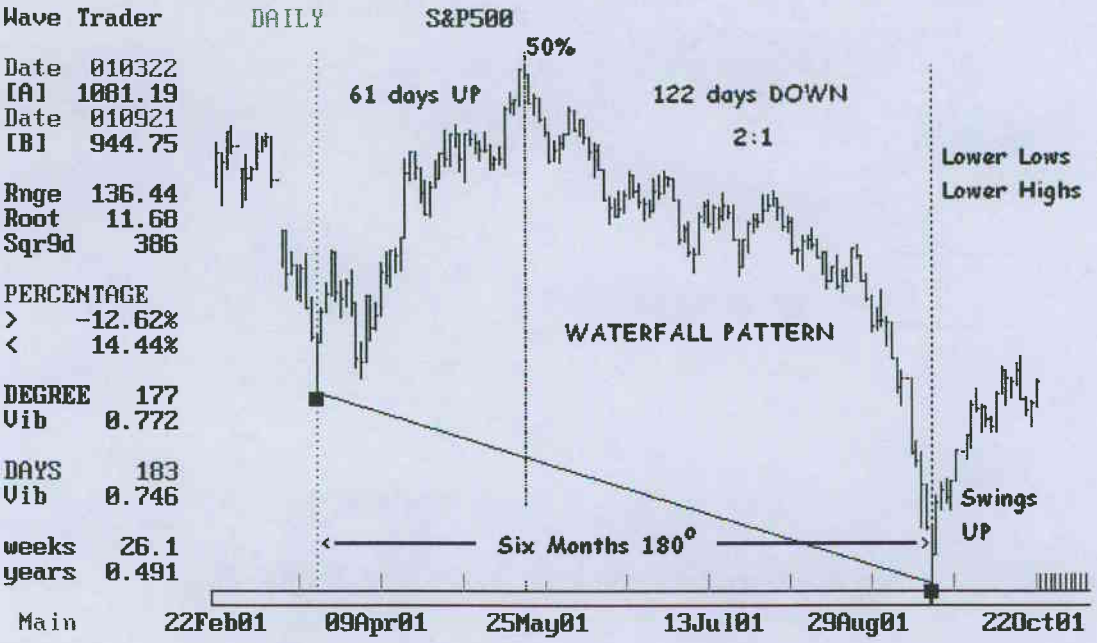



Market re-opens after 4 days
DJIA hourly
10000.00
9500.00
9000.00
8500.00
8240.66
31 4 5 6 7 10 17 18 19 20 21 24th
Whew: Grim Week Ends
Shrouded in uncertainty, U.S. stock indexes post historic weekly losses.
Market Update »
Talk About It »
Dow Jones Industrials Index
The market was weak before now it is weaker.....
September 2001

NEXT 2 DAYS:



THE FOLLOWING DAYS:

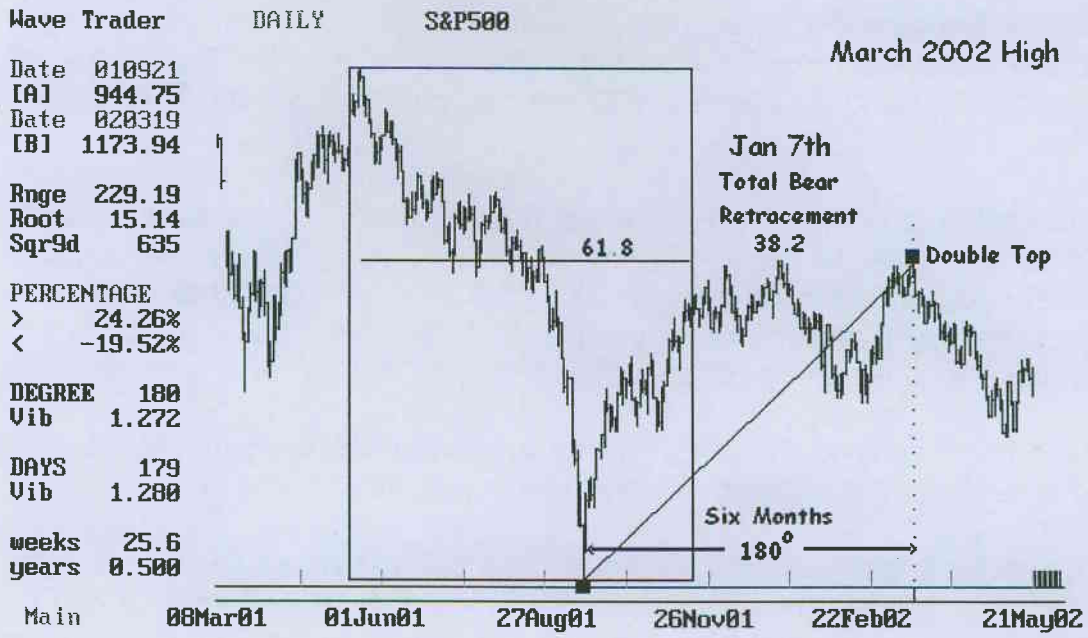


The timing was perfect for a technical reversal at the September 21 low.

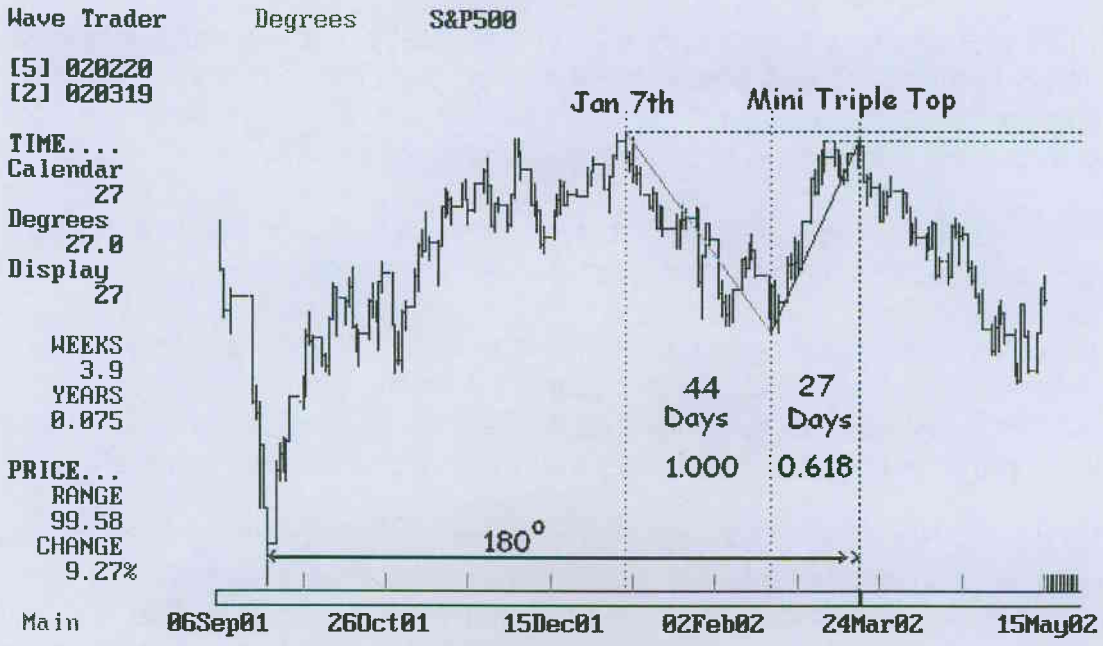
Gann's Equinox date for a reversal combined with a Dynamic Time ratio between the previous up swing at a 2:1 to the day. Six months from the prior major low. All the things we have learnt to monitor over the years!

It was all there.....

January 2002 and March 2002 DOUBLE TOP:



March 2002 high: This was another no-brainer in the progressive bear market. There was also another important timing element that came out at the double top that is worth mentioning for posterity.



There is really no excuse for missing SIGNS like these if you understand market geometry and the classic teachings of Elliott & Gann.

SOME MARKET LOGIC:

When you arrive at a decision point that seems to be of a major degree you should investigate all the technical possibilities. The more important the signs you can see at work the better. Some bottoms or tops in the market will not be as clear as the ones I am showing you now but there will certainly be signs for you to follow.

As my policy is only to trade intra-day now the major turns never have me holding a position for very long, but it is handy to know what the general market direction will most likely be. As I go from day to day I see the smaller waves working themselves into completion and I can trade backwards and forwards taking advantage of the ebb and flow of the market.

I have been studying the other players in the market for well over 20 years and it never ceases to amaze me how predictable they can be at times.

Whether these technical things happening in the market are because of some preordained natural law or just because of the actions of traders acting on pre-taught technical education is not very important to me. The fact is these things happen and that is all I care about as it gives me an EDGE.

I also know one thing for sure that markets can only go up or down because more people are buying rather than selling or vice-versa. If they start buying or selling in force after a major technical signal I am going to follow the flow. Whatever their reasons for buying or selling there is always some fundamental reason behind their actions that will make some sense as well.

It may well be that when a market is fundamentally ready to make a reversal it takes technical signals practiced by a large percentage of traders to come into sync to tip the balance. This would be the only logical explanation if the markets were not working to some preordained natural law.

This could explain why at times it is nearly impossible to explain some market highs and lows that never make exact geometrical sense.

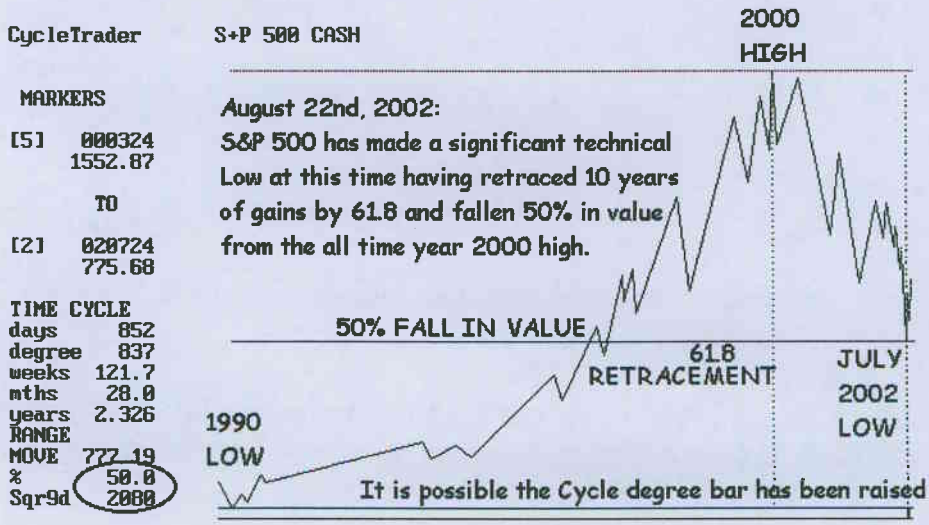
Now some people reading this page might want to call me a heretic for saying this now after all the books I have published on the geometric subject in the past. But I will have to live with that if it is your opinion, because I am only telling you how I feel right now, that's all I ever did in the past anyway.

The thing is I started out looking for ways to forecast the future and as the years passed I decided it was a fool's errand. Forecasting was fun but it never really helped me make any money trading. To make money trading all I had to do was read the market one day at a time and that is how I have been doing it all my life. At times maybe I thought I was doing something else but now I realise it was only my constant daily work ethic that has continually made me a successful trader.

THE JULY 24th, 2002 LOW:

A flashback to August 22nd, 2002 when I was writing the 1st Trading to Win manual. This is what I said at the time.

As it turns out my idea on how waves of similar degree should relate has kept my mind in the right direction throughout this bear market.



Right now a solid technical bottom has been registered and it is only a matter of time to see what the end result will be.

From my point of view I have been trading the upside more than the downside since the July 24th low – but then as you read more chapters you will see the reasons why.

Situation right now is that the S&P500 is trading at 950 up 175 points from the July low. The previous rallies in similar degree were 235 and 233 points so it remains to be seen if this rally can exceed and overbalance the CYCLE DEGREE and start a new series of waves of similar degree.

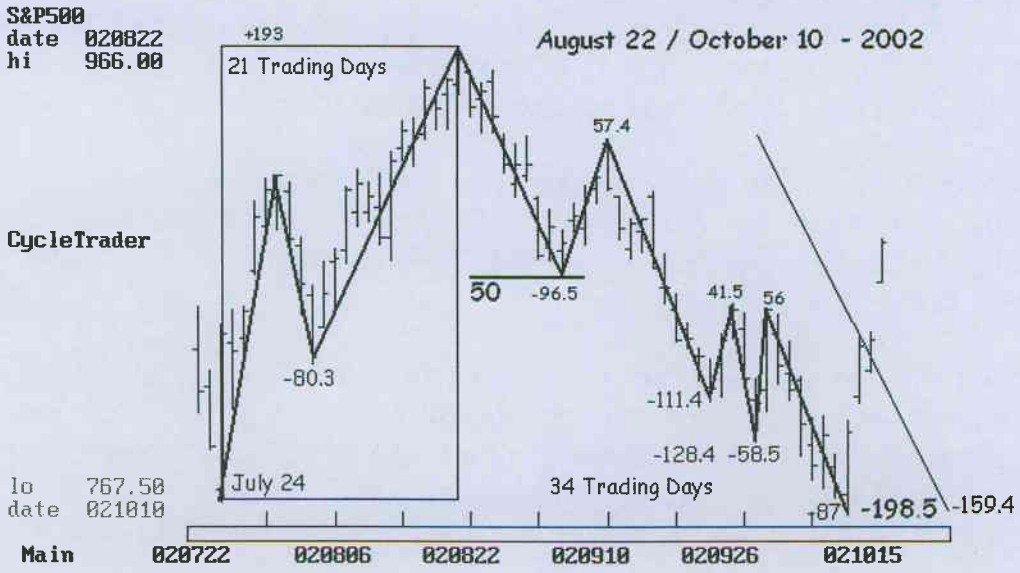
As far as I am concerned the CYCLE bear market is still intact until we take out the 38.2 of the total decline from 1552 to 775. That would mean a level of 1075 has to be exceeded. Time will tell, in the mean time it is business as usual.

775 was the July 24th Low and the rally up from it failed the day after I had written this, the thing was that the August 22nd high of 966 basis futures didn't make a hell of a lot of sense geometrically OTHER than the percentage increase from the July 2001 low to August 2001 high was identical to the percentage increase from the September 2001 low to the January 2002 high.

August 22nd, 2002 Bear Market Rally High:

Now these are the situations that create a dilemma for you. The market just failed to make a 1:1 with the prior wave of similar degree and it also just failed to make it to the 48.6 or the 50 retracement.

The 48.6 would have been at 969 and would have fitted with the 1:1 – the 50 would have been at 975. The high was 966 on the futures and 965 on the cash. Nevertheless the market reversed and went on to make a new low which just broke below the July low by a minor number of points and that didn't make much sense either, I am now treating it as a bigger picture false break because of the way it reversed so quickly at the time.



The thing I have learnt over the years when the ratios don't come out perfectly is to go with the pattern and my other rules.

1. Corrections should not last longer than 2 days.
2. The 3-Day swing is the fastest indicator for the current trend.
3. Corrective waves of similar degree should not overbalance.

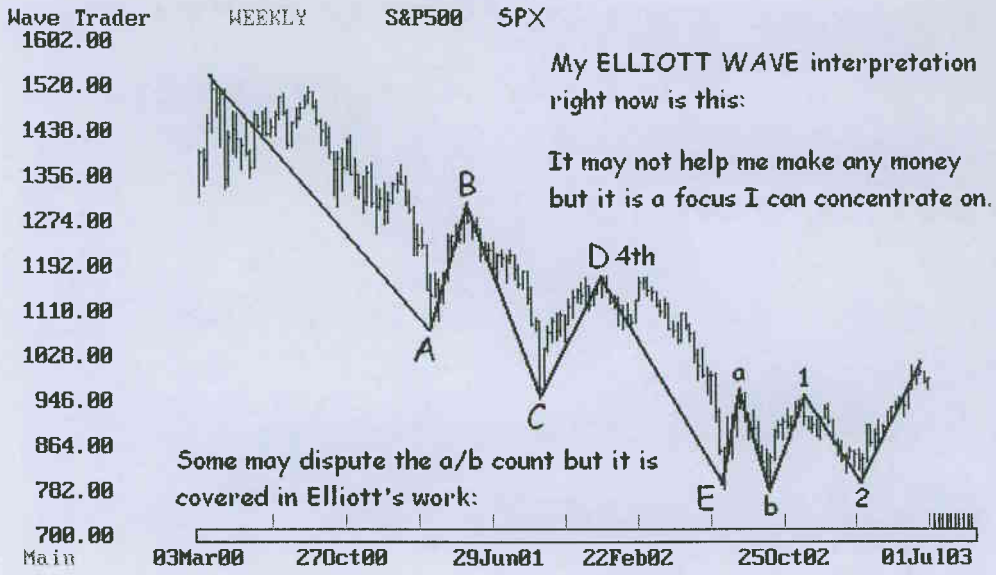
Following these rules has always kept me aimed in the right direction.

THE COMPLETED BEAR MARKET:

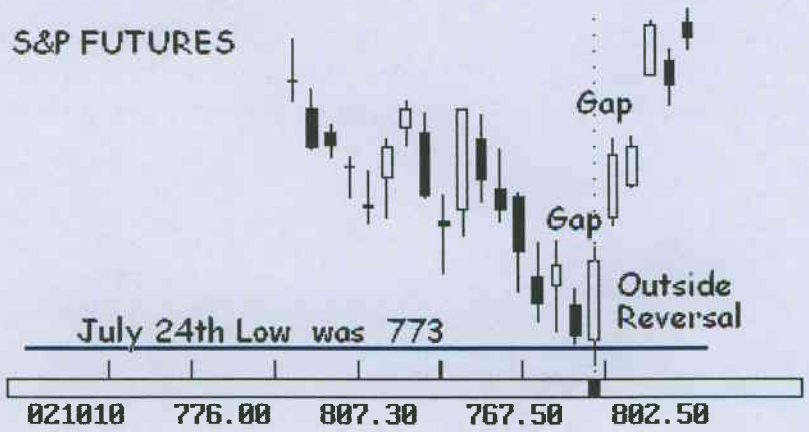
One thing I want to remind you of again is to always keep a record of events. If you do this then you will not over look anything. It is easy to forget some things and then realise later on that an opportunity got past you.

As I said when I started writing this chapter the S&P has currently made a high of 1015 two weeks ago, that is 247 points up from the October 2002 low and 226 up from the March 12, 2003 low. The wave up from October 10th to December 2nd ran 187 and did not over balance but now it is a different story.

This is how I potentially see the current Elliott Wave position of the S&P, I am presenting this as a guide for my students who are currently taking real time training with me right now.



Point E was the July 24th 2002 low. Officially that is where I see the bear market ended. The up and down move between July and October although still within the confines of a bear market did not extend. We could call this period an adjustment period. The interesting thing about the low on October 10th 2002 was the way the market just took out the July low on a panic sell off day and then reversed VIOLENTLY. Within 3 days the market had regained over 116 points.



The concept of the A-B base at the end of a bear market was twice mentioned in "Natures Law" according to the Elliott Wave Principle written by Frost and Prechter [C] 1978.

Section 2: Chapter 4:

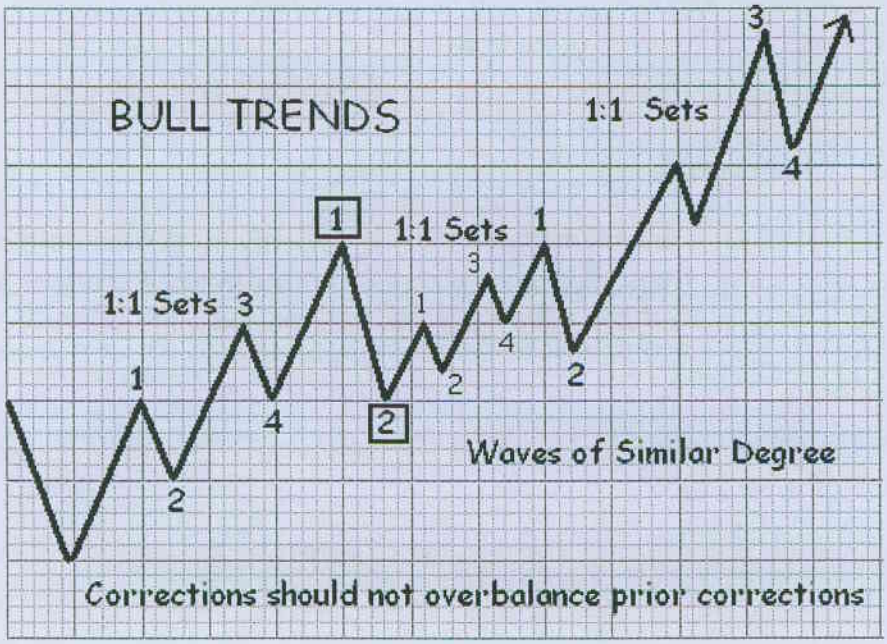
Bull Market Trends:

Bull moves expand in orderly ways, i.e., they move in stages of minute degree, medium-term degree and longer-term degree.

Each degree of movement should normally relate geometrically within itself.

When a move of similar degree is in progress any corrections within that move should never exceed the amplitude of any prior correction of the same degree. If they do then the wave structure is said to be moving up a degree.

Waves of similar degree:



The common wave sets you will get are these:

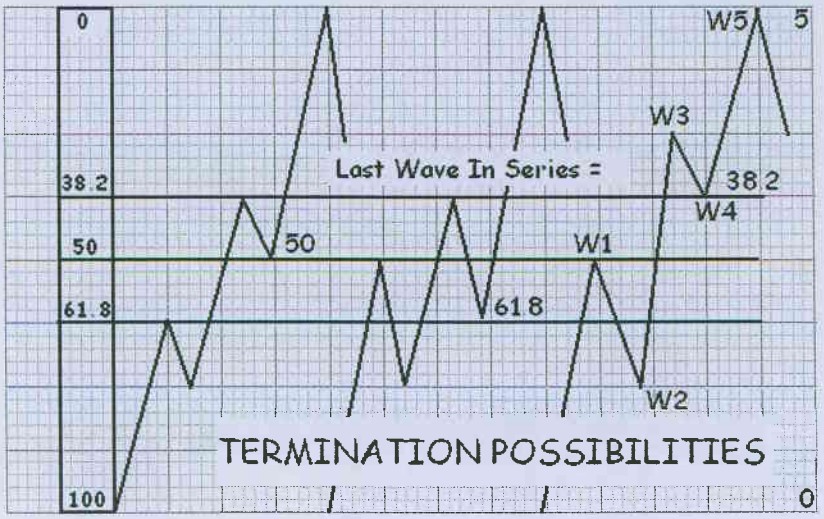
Wave 1	Wave 2	Wave 3	Wave 4	Wave 5
1st Resistance	50 of W1	1:1 of W1	1:1 of W2	1:1 of W1
From prior	57.7 of W1	1.272 of W1	38.2 of W3	1:1 of W3
Downtrend	61.8 of W1	1.414 of W1	38.2 of W0-3	1:1.618 W0-3
Could be a	66.7 of W1	1.618 of W1	44.7 of W3	38.2 of W0-5
38.2 or 50	70.7 of W1	2 of W2	44.7 of W0-3	50 of W0-5
retracement	78.6 of W1	2.618 of W2	50 of W3	61.8 of W0-5

These are just a guide, as the market unfolds you will see what I mean.

Bull Trend Completions:

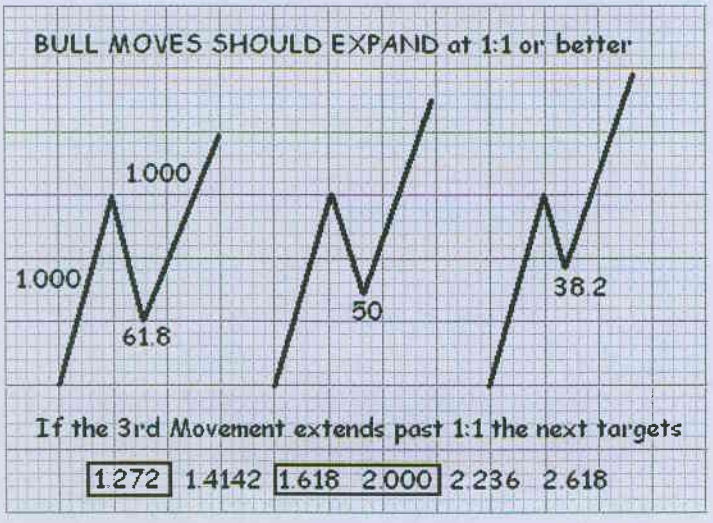
One of the ways you can tell if a bull trend has reached completion is by looking at the wave divisions of the completed move.

For instance the total move could be 100 points and the amplitude of Wave 5 is 38.2 it can also be 50 of the total move, in some cases it will be 61.8 of the total move.



Often you will find that because of the internal structure of a wave series it will terminate in a way where the last leg into the conclusion becomes a Cardinal ratio of the entire move.

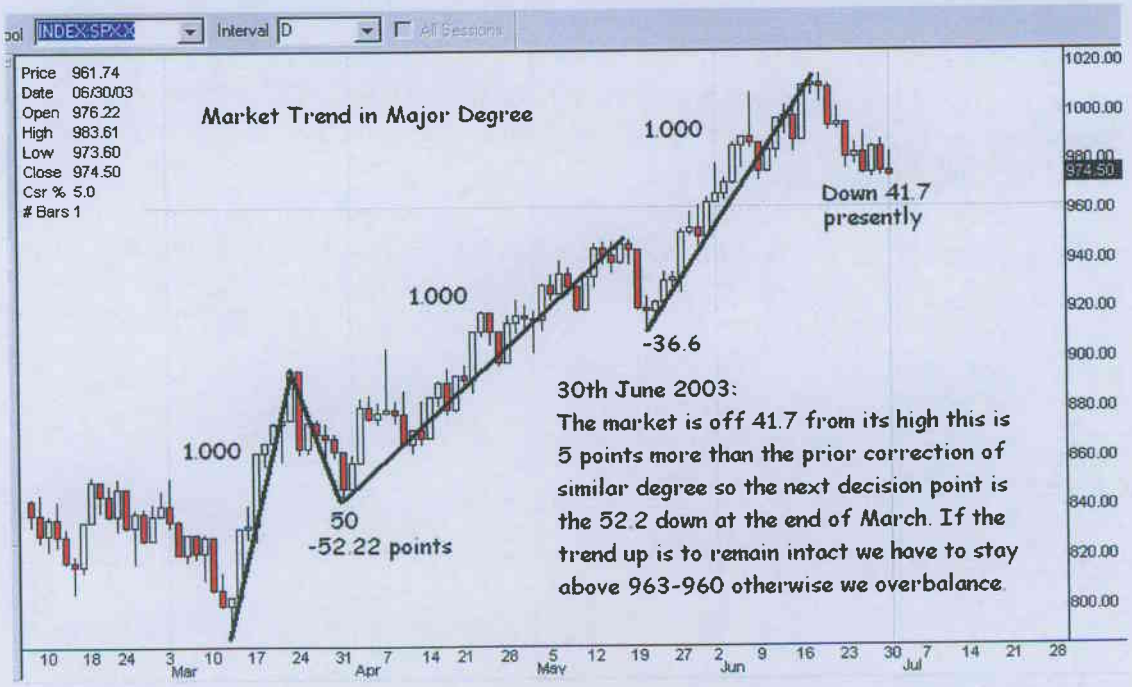
From a trading point of view it is better to keep it simple and only deal with wave sets in similar degree.



When buying breakouts your first expectation target is the 1:1

Here is an S&P chart I saved for the two days of March31 and April 1 when we resumed the established uptrend. We reversed back into the uptrend off a 50% retracement on March 31, 2003.

Since then this has been the progress.



The difference between the March 31 low and today's low is the pattern over the past few days. The "window dressers" have been at it again but it is hard to say who was winning. When the June futures rolled over a week ago the majority of the short positions that expired were Non Commercial or most likely Hedge Funds short positions. It means that the hedge funds were shorting this market all the way up and may continue to apply pressure in the days ahead.

Interesting times as the feeling now is that stocks have reached fair value.

In any case you should have the idea by now that for trading purposes we go with the flow. The market is either indicating it wants to go up, go down, or rest along the way.

As a trader it is not terribly important whether the market is going up or down. What is important to know is where it will find technical support and resume the up trend if it is bullish or where it will hit resistance and correct.

On a day-to-day basis we have rules to follow in any established daily trend. The trend will always be clear to you if you follow the rules.

If the market is going up in an established trend it will have more buyers than sellers. It is normal that markets will have more public participation in an uptrend than a downtrend. The public are just not educated in trading bear moves and mostly they have the mentality instilled in them from birth that the only way to make a profit is to buy – hope it goes up – and sit with it.

The public have a habit of holding positions way past the top of market advances and get themself washed out on the corrections. When a bull trend reverses most will hang on until their worst fears are realised and then they will capitulate.

As markets move into overbought territory, basis technical indicators, you will find that the public are buying in case they miss out, whereas the professional trader is looking for a place to sell.

Professional traders are well versed in market habits and that is why they are always the big winners over time. They are also market savvy so they know when a move is running and will buy with the trend if they don't see any barriers in the way.

Nevertheless on any given day the hard core will follow rules and buy and sell the levels that they think offer opportunity.

In advancing markets they like the 1:1 or 1:1.272 or 1:1.618 or the 1:2.000 levels.

So as you approach these price levels you have to be watching the market activity to see if they are looking at a reversal to go back the other way.

Traders have an abundance of reasons or excuses for their actions, after the event they will tell the media but then it is to late for the average person to act upon. You have to recognise the levels at the time to participate.

Trading a bull or bear trend is no different – it's just that in a bull trend the public will have a greater participation, even if it is only via the mutual funds.

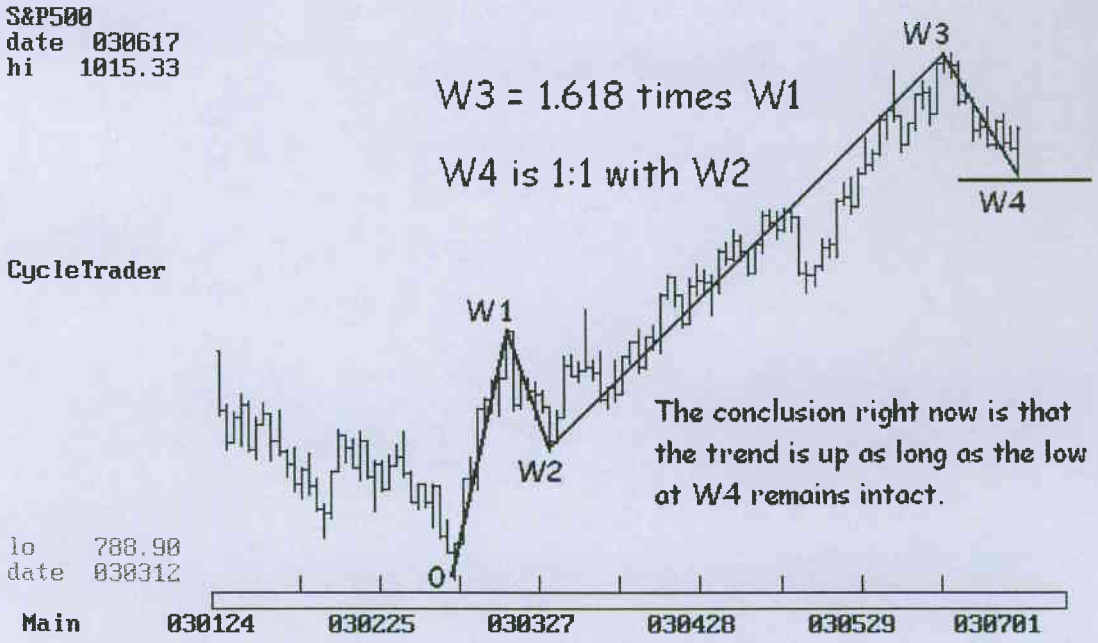
Tuesday 1st July 2003:

Today we bounced off the 1:1 level with the March correction after a gap down opening. The market closed on its highs for the day.

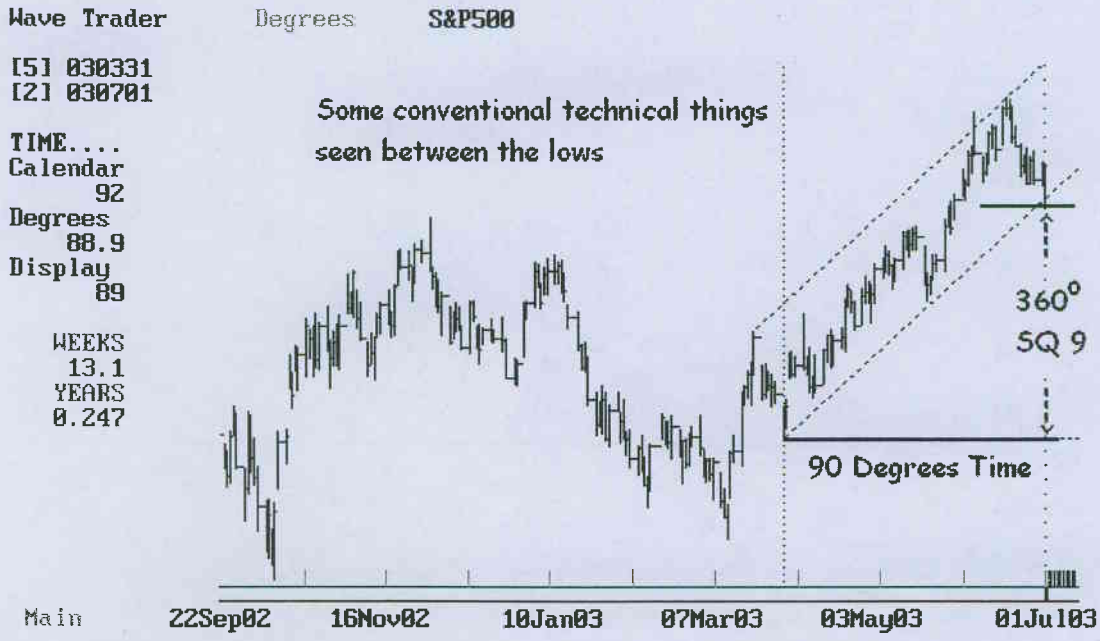
Now in the short term the 3 day swing only has to turn back up to change the current mood of the market. We have the 4th July holiday on Friday with half day trading Thursday. There is likely to be a lot of book squaring going into the end of the week.

Time will tell but the low today has all the earmarks of a major reversal.

So how does the Elliott Wave interpretation fit together right now?



Each day you just move along and read the signs. That is why it has to be one day at a time. In Elliott Wave terms while the W4 low holds up the bull market is still intact. If it fails then the whole structure up to the high would count as an A B C conclusion.



Just for the record right now there were a couple of things I saw that might be in play at this low. They are on Gann related teachings that you can read about in my DT&P Analysis book.

Wednesday 2nd July 2003:

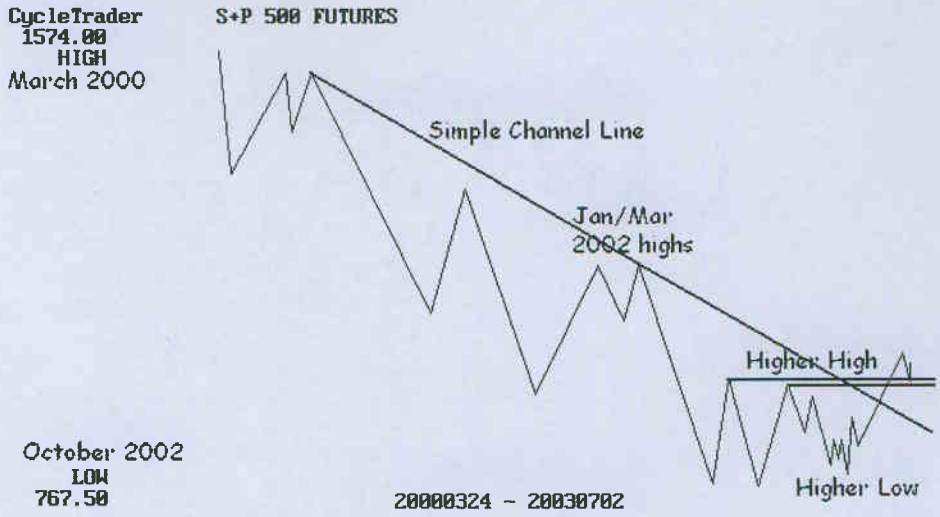
Today the market opened and at first met resistance at the 50% retracement but later worked it's way slowly backwards and forwards to the 61.8. The 3 day swing high was at 988 so that is now up again. Now this has to be counted as the second day up so we do not know for sure if it is just a correction in a downtrend or a new wave up that will keep going and take out the 1015 high. If it is the beginning of a new wave up we can assume that it has every chance of going up a minimum of the amplitude of W1 (108 points). So from the low of 960.5 that would take us up to 1068.5. Now this is only hypothetical at this stage but I am just giving you an idea how we can use our knowledge to map out an idea of what to expect in the future if the confirmation comes.

The 1:1 target with W1 would make a 0.618:1 with W3 so that would definitely be a logical resistance in any further market advance. The 1068 area also coincides closely with a 38.2 retracement of the total bear market range from March 2000 to October 2002.

I am not making a forecast here because I will be taking it one day at a time. Nevertheless it is handy to have an idea of what is possible. Some weeks ago a couple of the self proclaimed Elliott Wave experts (Bob Prechter and Robert Miner) were still calling for a market high and a resumption of the bear market to new lows. They have been the wrong way around all the way from the March low. You know they both preach the power of contrary thinking so I won't turn bearish until they are finally forced to admit they are bullish.

So long as the recent 960 low holds I am going with the trend which is up.

Just for the exercise let's have a look at the big picture and see how the market has developed since the October low.



The recent high has exceeded the two previous highs – old resistance = new support. Those two highs are 966 and 955 respectively. While the market trades above these highs it has to be treated as bullish.

The 50% level between the 2002 January high and October 2002 low lies at 973. While the market remains above the 50% it has to be considered bullish.

Another thing is that the market broke the simple down trend channel line some time back and has remained above it for some time now.

These are just simple things but they are things that the investment funds have to take into account. Many funds have remained sidelined in the early stages of this rally from March 2003 and must be getting nervous that they have now missed the bottom. The media is now persistently broadcasting that the US economic reports released recently indicate that the US economy is rebounding. The facts are encouraging fundamentally for higher prices.

With fundamental conditions that encourage people to invest in stocks abound I wouldn't expect the market to go into a tailspin like we saw in 2002. Reports also show that there has been record inflows of money into funds in recent weeks, this indicates public participation. That indicates this current move is a bull market, maybe not in the same sense as the bull market from 1990 to 2000 but a bull market nevertheless.

Now you can have your choice. Do you fight it or do you go with it? I think you know the answer to that question.

PREPARING YOUR ANALYSIS:

Just in case you are not 100% sure how to go about it – here is the procedure:

1. You look at a LONG TERM chart and establish where the market is basis the past 3 years or so.
2. Now you go to the daily chart and work out where the market is basis the past few months to a year.
3. Having established the likely position right now, i.e., if the market is going up or down, you go to the most recent moves and look at where the support and resistance zones are.
4. Once you have done this much you are starting to tune into the market.

Now you can work to the 60 minute, 15 minute and then the 5 minute time frames.

These will give you the places where you need to watch if you want to initiate trades.

Thursday 3rd July 2003:

The rally that began at 960 two days back has yet to confirm it is a W1 of a new expansion. Still it could provide grounds for a 1-2 with the deep spike down to 974.5 today, as the Line in the Sand at 971.5 is still intact

When half the regular traders are away on holiday it's not unusual to get a sudden reaction off a cardinal retracement level like we did today.

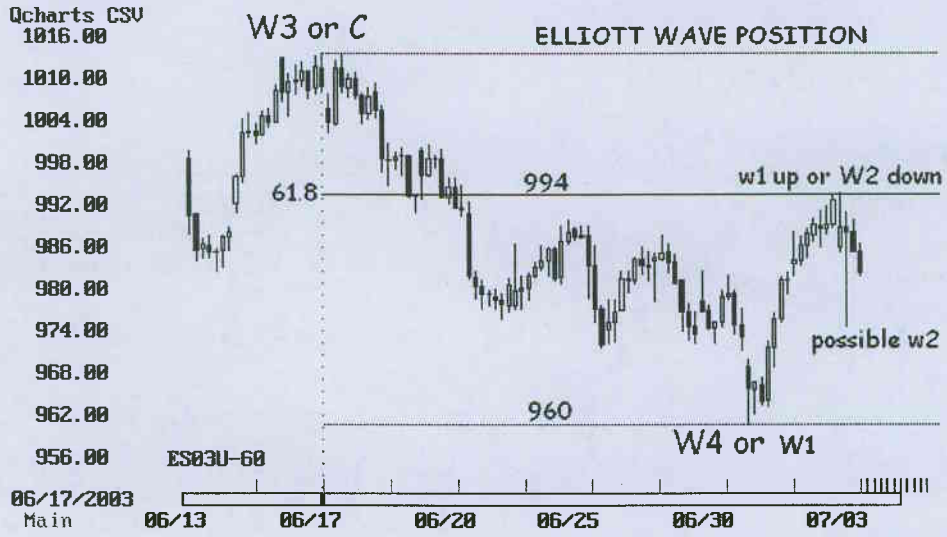
Let's take the holiday weekend to summarize what we know technically about this market right now. I am writing these chapters in real time so you can get the idea of how I go about things, I don't know what will happen in the future but if I follow my rules I am always prepared.

We can start with the big picture:

The recent high June 17 qualifies as a W3 as it was a 1.618:1 expansion with the W1 from March 12. In Elliott terms it would be either a W3 of a bull market or a Wave C of an ABC bear market rally from March 12.

This week's low at 960.5 (Big pit Contract low) qualifies as a W4 in a bull market or a W1 of a new bear trend.

Today's high 994 was a 61.8 retracement of the June 17 (1015) high and the July 1 (960.5) low range. This qualifies it as either a W2 in a bear trend that began on June 17 or a W1 of a new expansion that began on July 1.



If you apply the Elliott Rules to the current market position the Wave Count possibilities are very clear. 960 as a W4 low implies we go higher and 994 as a W2 implies we go lower.

So our larger degree alternatives are to buy it on a break of 994 or sell it on a break of 960.
The short-term trend (3 day swing) is currently up, yet the current 61.8 resistance doesn't help the Bull case right now.

Positives for the Bull case are that the market is still above 973, 966 and 955, the levels I mentioned a couple of pages back.

Right now the case is stronger for a bull trend than a bear trend, i.e., unless the 960 low comes out and confirms a downtrend in progress.

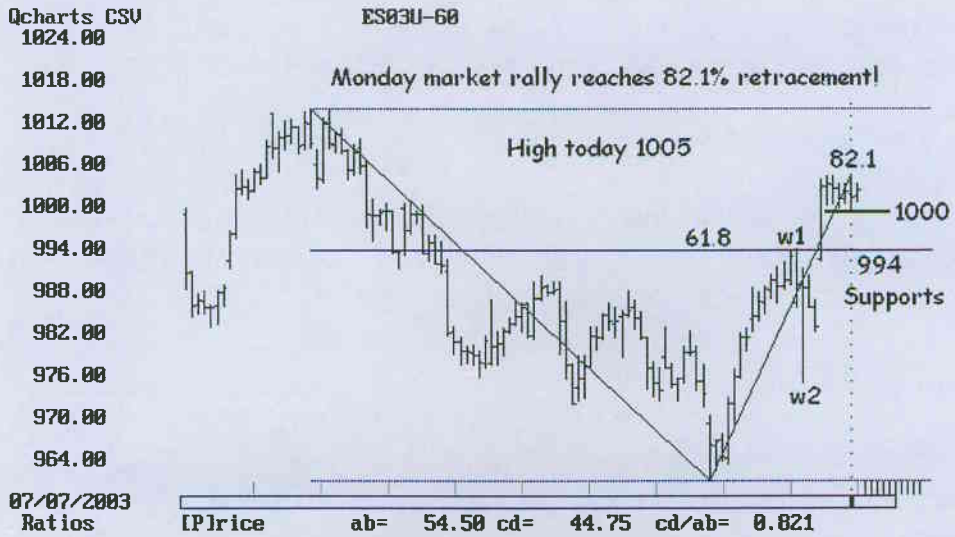
Monday 7th July 2003:

When you see what has happened this morning you will know why I am married to this business.

The Globex session from Sunday night traded up towards the 994 level indicating the market would mostly test the 61.8 resistance.

The market day session opened and within 5 minutes the break of 994 was completed. It was a no-brainer trade buying the break of 994.

It's a tough life ☺. A breakout from an established resistance such as we saw today is like having a licence to print money.

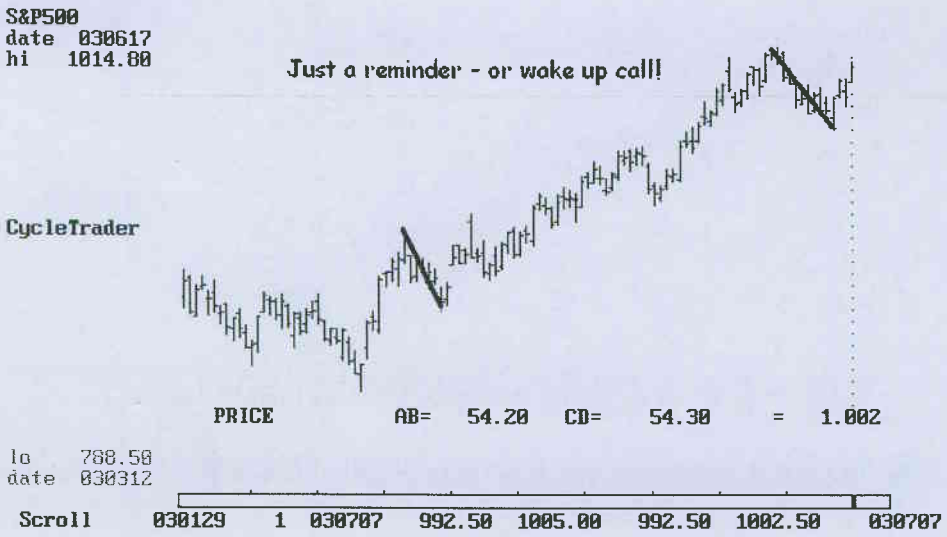


The retracement has extended to 82.1 now, 78.6 would have been a level to watch so now we should expect it to go higher. The double top at 1015 is the next resistance. Supports are now 1000 and in the worst case 994.

I hope you guys are learning from my day-to-day analysis of the current situation. I just focus each day on what has happened and form an opinion on what levels other serious traders will see as important. Once they have analysed the important levels they will place orders either under or over them to sell or buy.

This is how the market flow works. The more buyers that are present and the price goes up, more sellers the price goes down, nothing else matters, it is a fact of life.

All that is important each day is to identify the levels the buyers or sellers deem to be critical to their current opinion.



The bull trend from the March 12 low is still well and truly intact; the only thing that will change my opinion now is a **two-day break** below 960.

Tuesday 8th July 2003:

Today after a lot of backing and filling the market finally broke to a new Futures high of 1008.5 from the 960 low. You can see this market is coming under pressure as it gets closer to a double top at 1015.

Wednesday 9th July 2003:

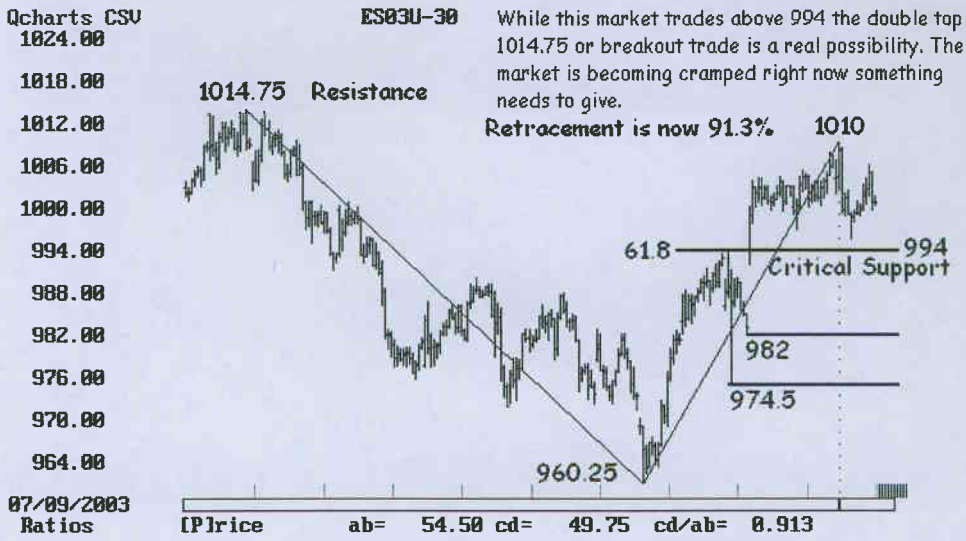
The day started off in a choppy fashion and had the look of a counter trend day after 10:30am ET. I lost on the 1st two trades before 10:30am and was underwater 1.5 points, I was not comfortable with the chop. I managed to short after the high of 1010 at 1007^4 and as soon as I had recouped my losses closed out and quit trading for the day.

Open interest has been building up the past few days so it seems there are plenty of traders who don't think this market will take out the June 17th high of 1014^6.

Contract	1-Jul		2-Jul		3-Jul		7-Jul		8-Jul	
ES	Volume	OI	Volume	OI	Volume	OI	Volume	OI	Volume	OI
Total	839656	349825	585686	348888	433367	365996	600690	360274	571343	373731
Delta	213743	10943	-253970	-937	-152319	17108	167323	-5722	-29347	13457
Contract	1-Jul		2-Jul		3-Jul		7-Jul		8-Jul	
SP	Volume	OI	Volume	OI	Volume	OI	Volume	OI	Volume	OI
Total	89486	615182	55928	615234	42380	614553	48545	616480	44505	618682
Delta	20550	-1100	-33558	52	-13548	-681	6165	1927	-4040	2202

Personally I think it can but it needs some good news to help it along. We are into Q2 profit reporting so some extra good news may tip the balance. The line in the sand is still at 994 and the 3 day low is at 995.5 so technically if this market breaks back through 994 it is in a weak position.

Any move up to the old high at 1014^6 is surely going to attract extreme selling pressure but the encouraging thing today was the volume spike on the low bar of the day. It shows that there are plenty of buyers down at the support zone.



Let me explain a few more thoughts I am having at this time as they may come in useful to you in the future.

We topped out on the 17th June when the W3 went 1.618 of W1 and the progressive waves in W3 went 1:1. Now everyone worth their salt as an analyst must have worked this out by now. Next we reversed back up from what I am calling W4 on a 1:1 with W2. The entire waveform in major degree is "square" to the W4 label. (See S2:C4:P38)

Now by my rules the only way this current move can reverse back down is for it to make a double top with W3 (1014.75) or go on to 1068 to keep the integrity of the wave structure in the same geometric form. Once we passed above the 61.8 (994) of the move down from 1014.5 to 960.25 we exceeded the maximum geometric possibility that would have signed and sealed the fate of the W3 as a conclusion from the March 12th low.

In any case any test of 1014.75 is going to be met with strong selling and any break above it is going to attract strong buying. This is very clear to me, I hope it is clear to you.

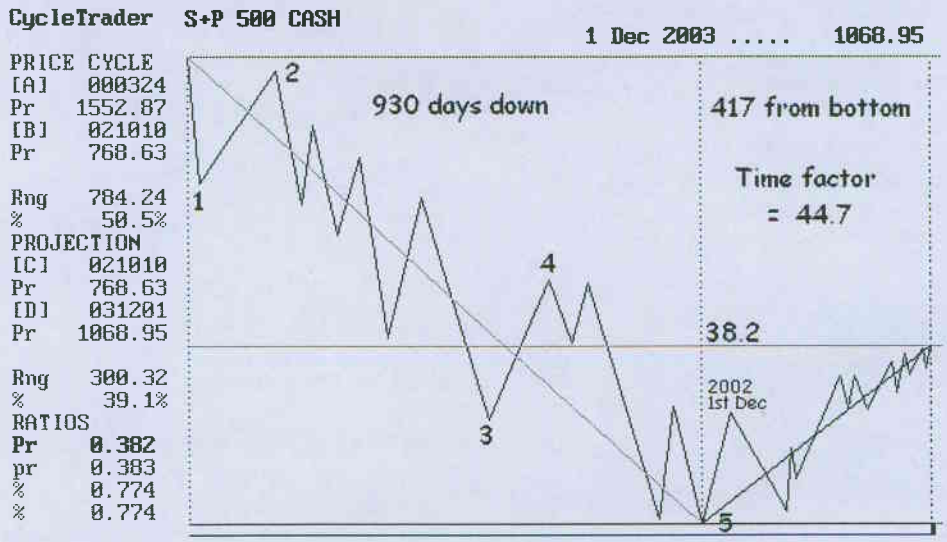
Nevertheless in the shorter-term picture we could stay below 1015 and above 960 and still maintain the integrity of the wave count. What I am saying is that while the market trades in this range it is a traders market. I was explaining ratios as we went along just so we have a "road map" of the bigger picture. Now we are in a "no man's land" so to speak so it is very important to watch the daily patterns and use them as a trading tool. As we have been getting closer to the old high (1015) the market has become choppier and choppier. This is because we have traders who believe it can go higher and on the other side traders who believe 1015 is the seasonal high.

The market still has to tell us which side is correct, there is no need for us to decide in advance all we have to do is just follow the signs to make money.

ADDENDUM – 1st December 2003:

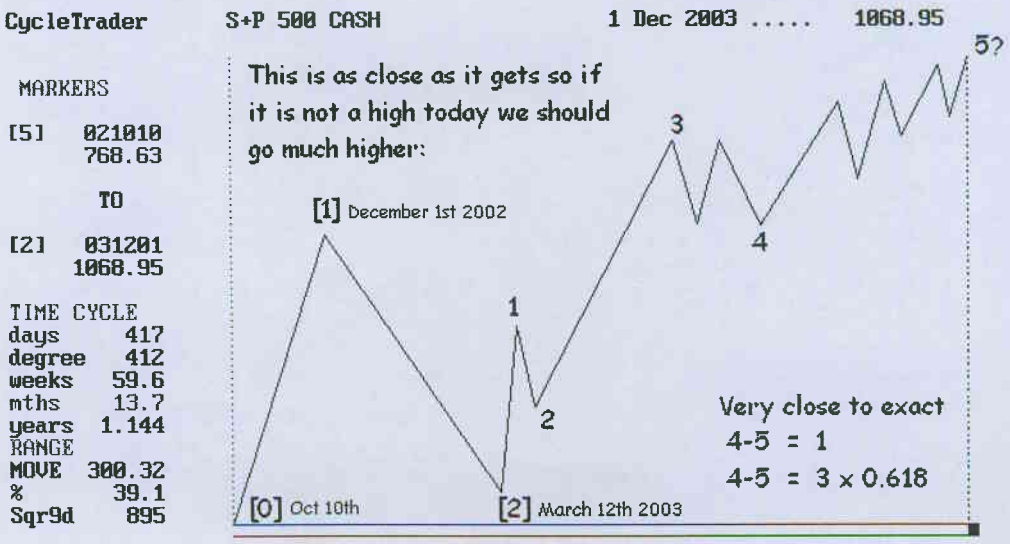
The process of completing this manual had been delayed for over two months since I completed the original draft so I am adding a little extra to this chapter as the S&P500 today has finally achieved the target I have been talking about for so long.

Here's the up to date long-term swing chart so you can see what I mean.



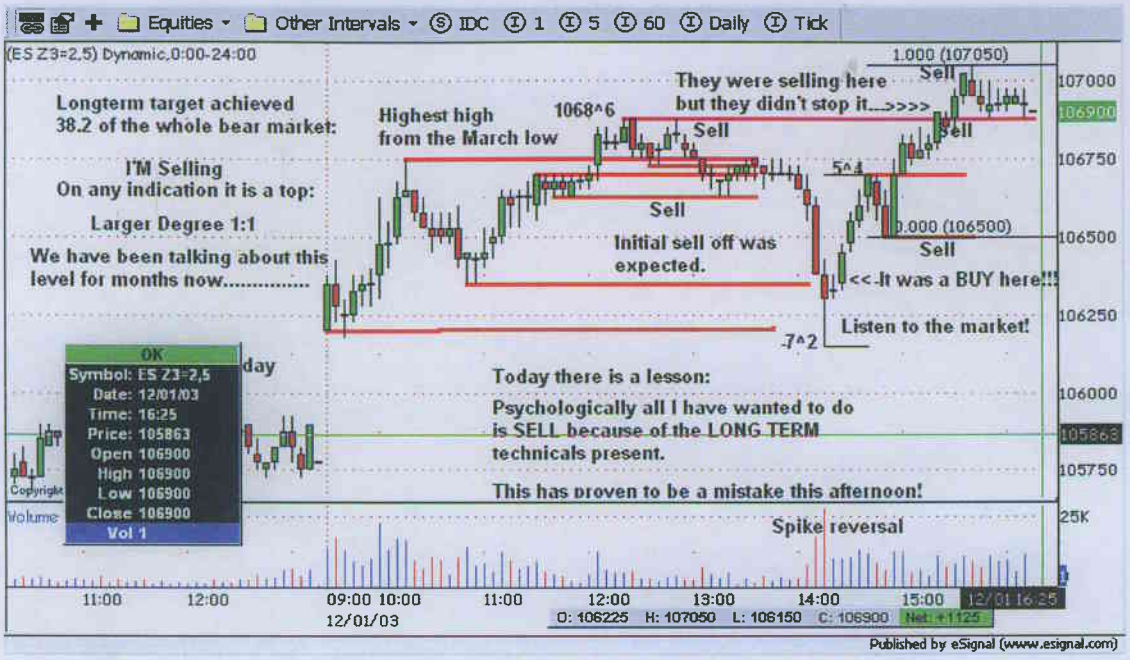
The high this morning represents a 38.2 retracement of the total points decline in the 2000-2002 bear market. Also today we have a time factor present.

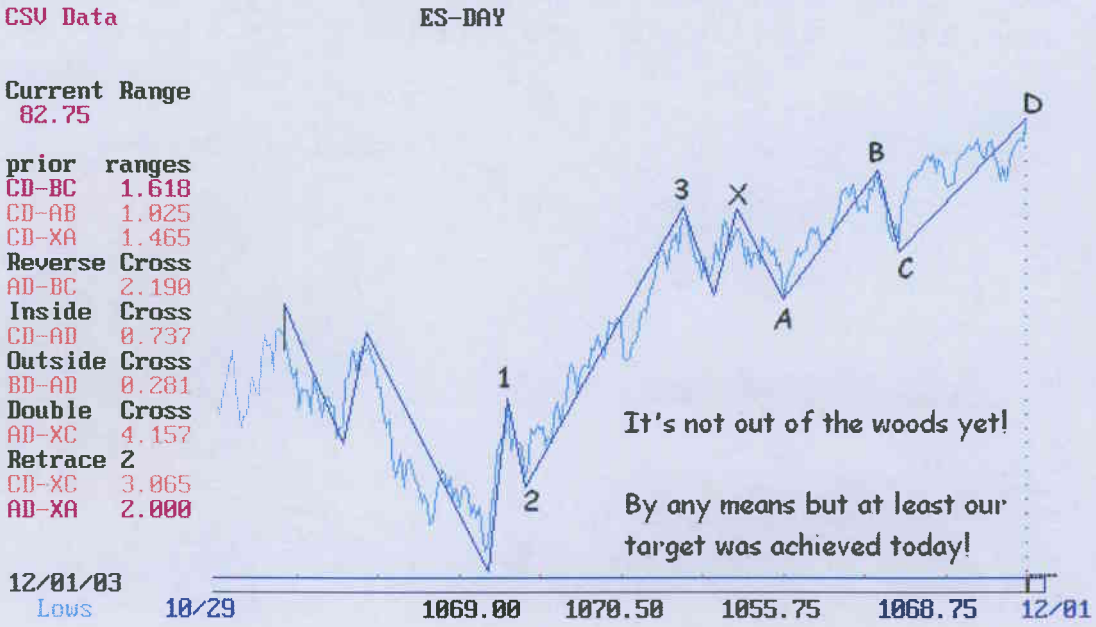
This morning's high is in line with an anniversary high as well. The 1st major high after the bear market low. Will it hold that is the question right now?



Whichever way you look at it there is plenty of evidence technically that this market could have a setback at any time.

But as the day wore on the traders didn't seemed to be phased about my target and plenty of them knew it was there. I even witnessed a floor trader interviewed on Bloomberg earlier in the day saying that the market had arrived at a KEY RESISTANCE LEVEL and was testing it.





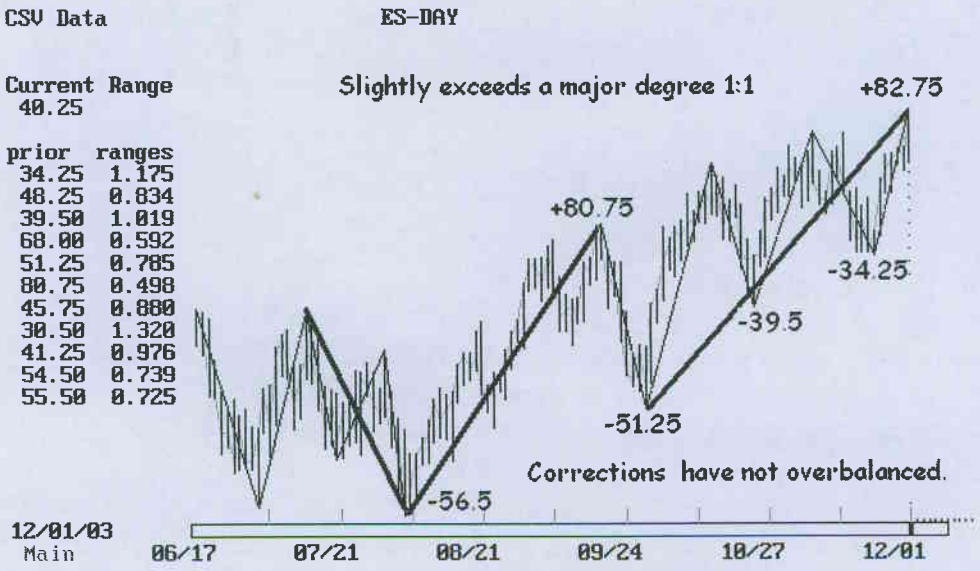
It has been a rough ride up to today's levels over the past two months but we have eventually got here after all this.

What I can't understand is that throughout the past months beginning in April of this year Bob Prechter and Bob Miner, both self-proclaimed "Guru's" of Elliott Wave have been calling for a final top and a resumption of the 2000-2002 bear market. Effectively their forecasting has successfully kept their newsletter followers wrong footed all the way up.

Once a forecaster always a forecaster, and the market will do everything in its power to prove you wrong. Now that the market is way above the psychological 1000 level and clearly in a 5th Wave, the chances it would trade back below the levels of the 4th Wave of lower degree are remote in the future. The range of the 4th Wave is the 1015-960 area.

As I have said in the last chapter of this book, the market should eventually keep grinding its way up over time. It will have setbacks along the way, but if you go back over my work this year you will see that I am well aware of that.

What will be will be, but it helps to have the knowledge of all the tools used by other traders if you are going to beat them at their own game.



I will leave you with this observation: the **Trend is still UP.**

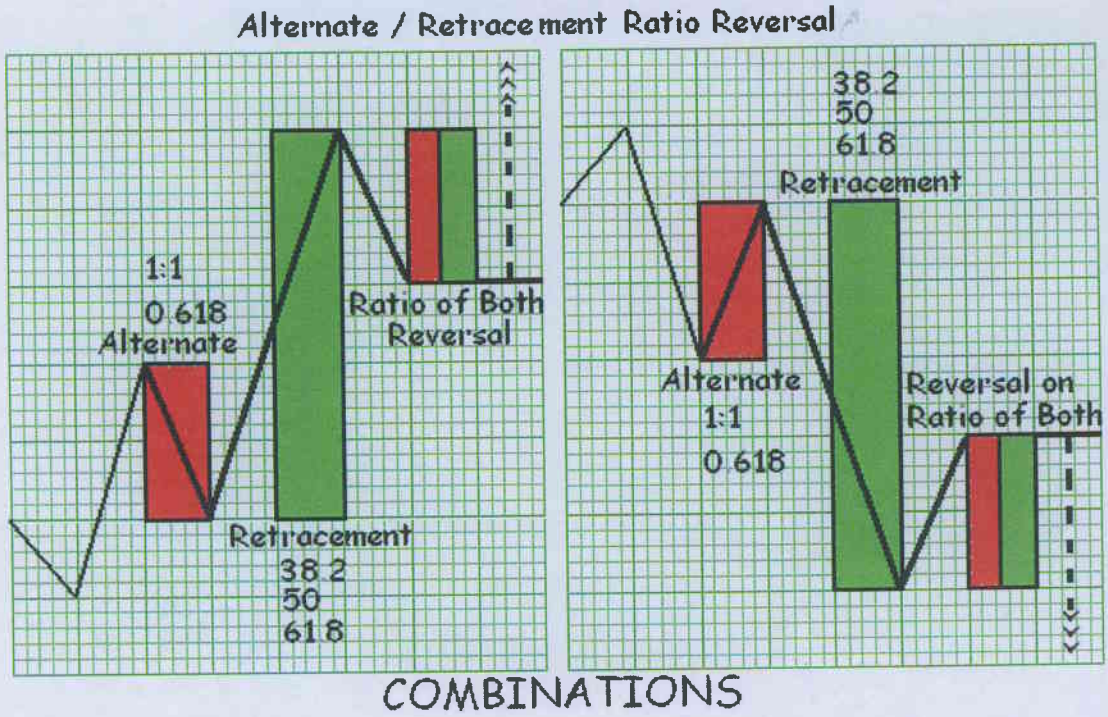
Whilst the next major correction down does not exceed the largest correction since the March 12th 2003 low, minus 56.5 points, the major uptrend has to be viewed as still intact. The high today was 1070.5 so the market now has plenty of room to remain above the 1000 level.

Elliott Wave is a great tool for trading; it helps you prepare for what is possible. But forecasting more than a one-day ahead is for fools.

Section 2: Chapter 5:

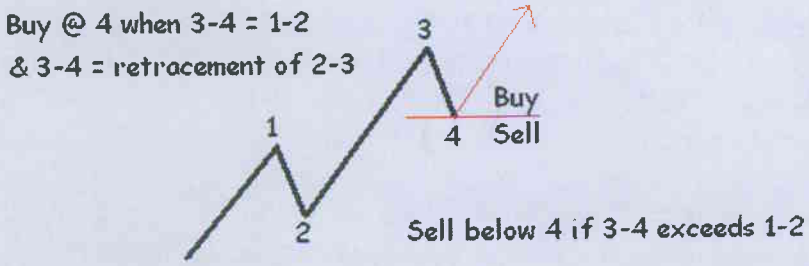
Alternate Waves & Retracement Levels:

Combination Levels where Alternate Waves and Retracement Levels coincide are extremely important to look for as they can signal continuations in trend most of the time.



Example 1: Uptrend in progress.
The market is going up and is currently in a correction – the correction terminates on a retracement level of the previous impulse wave (Green) and at the same time the correction terminates on an equal length to the previous correction in the series (Red). Ideal situations are (38.2 or 50) direct retracement and a 1:1 with the 1st alternate.

When I have a situation like this going I almost always buy into the weakness in the vicinity of the 1:1 with a stop and reverse below the 1:1 level.

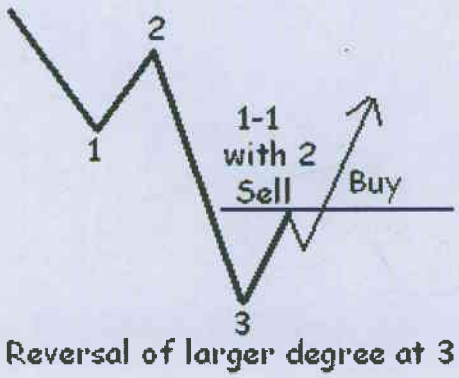


These situations are commonplace on a 5-minute chart and offer you a precise entry level.

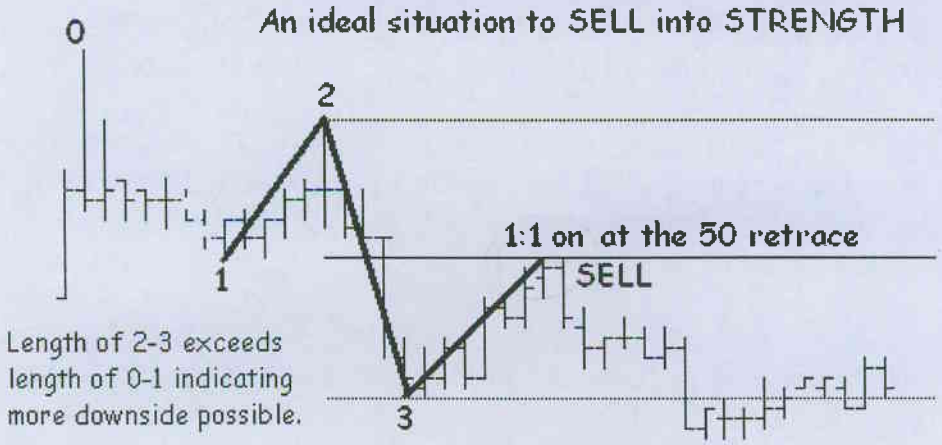
Example 2: Downtrend in progress.

The same situation applies in reverse to example 1.

This is a strategy for buying or selling at the extreme point of the retracement. The beauty of these signals is that you have an alternative to trade if the continuation of the original trend does not eventuate because you can SAR (stop and Reverse) your trade if the wave 3 termination point turns out to be a reversal of larger degree.



The longer you study the geometry that unfolds within the market structures you will see the obvious points of force that the market normally adheres to.

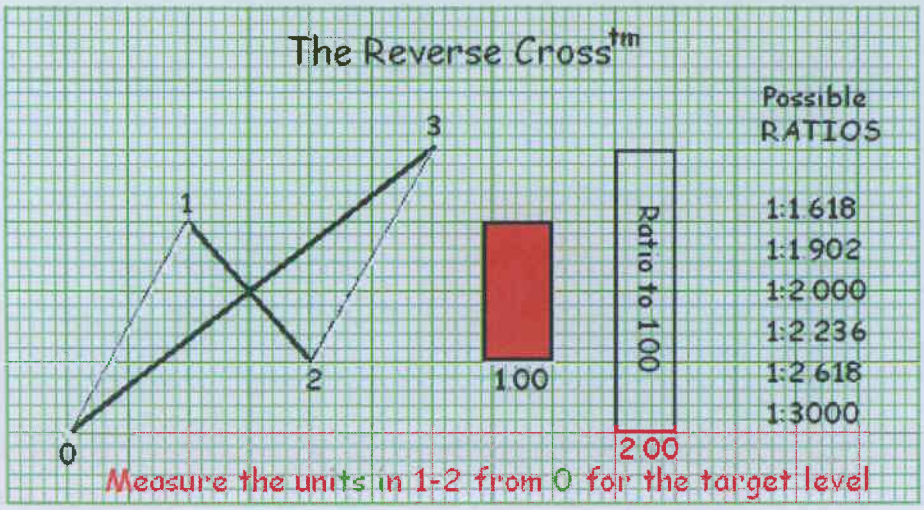


Section 2: Chapter 6:

The Reverse Cross[tm]:

The Reverse Cross[tm] is a term I have coined for a ratio analysis technique I use to help clear up the picture sometimes.

This concept has been mentioned in my earlier work and involves measuring the relationship of the 2nd wave movement to a completed 3 wave movement.



By checking the internal mathematics of a structure you will often find the binding geometry necessary to alert you to a trend termination.

This diagram illustrates the approach in an upward trend and the same approach applies to measuring internal waves in a bear trend.

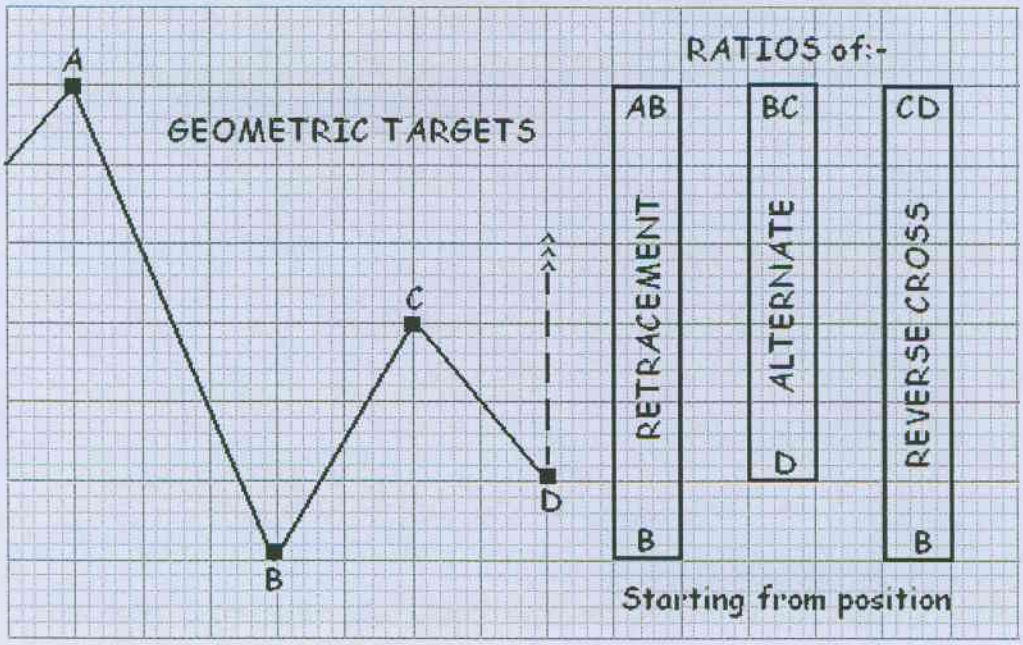
When a 3 wave movement extends the ratio can never be less than 1.000 so in cases like this I would refer to the ratio as an Outside Reverse Cross.

It's a funny thing but I have never seen mention of this concept anywhere before I first brought it up so I am claiming it as an original concept of my own. I now expect anyone teaching this technique to refer to it as Bryce's Reverse Cross in future.

Finding a future price level where the market might meet resistance or support can be located in advance using 3 price measuring techniques. You want to use the Cardinal Ratios from the Sacred Cannon. When two or more ratios from the same family of progressions hit on the same level then that is where the price is said to "Square up".

When you are working out possible geometric targets the procedures I use in order are:

1. Price Retracement levels
2. Alternate Wave Extension levels
3. Bryce's Reverse Cross levels



Use this same template in reverse for targets in a bear trend.

One piece of advice I can give you is this:

1. If you find a level where The ALTERNATE WAVE relates 1:1 and the RETRACEMENT is going to be 38.2, 50, 61.8 then the chances of a reversal at that level are about 90%.
2. If the ALTERNATE WAVE relates 1:1 and the REVERSE CROSS comes out at 1.618, 2.000 or 3.000 there is also almost a 90% chance of a reversal at that point.

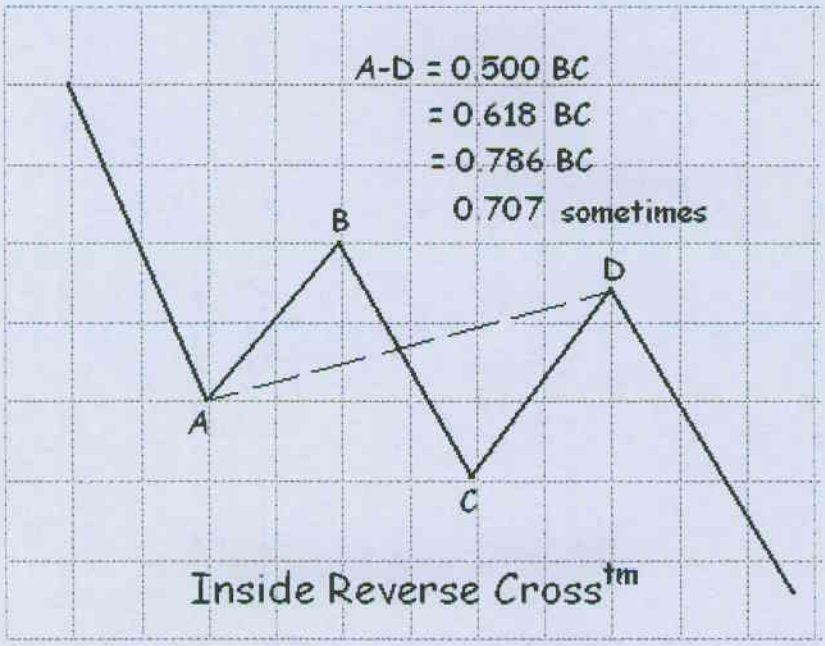
There are many other combinations that offer a high probability for a reversal in trend but they are so numerous I cannot list them here. My advice to you is to explore all the possibilities within the markets you trade.

I have a routine that I have developed in my Wave Trader software that allows me to test important levels either in advance or at the time they occur.

When I am working with a 5-minute price series I find it easier to check them as I go using my X-ABCD routine which will be explained in a future section of this manual. My purpose right now is to get you ready for this explanation.

INSIDE REVERSE CROSSES:

The inside cross is more likely to occur in a continuation pattern it is not a major reversal situation. The inside cross has a ratio of 1.000 and less than 1.000



Less than 1.000 ratios are more likely in a waterfall type pattern in a downtrend but they can occur in an ascending diagonal triangle in an uptrend.

When you are having trouble justifying the existing geometry within a wave series like this it is one way to turn. The 0.786 ratio and the 0.707 are probably the most likely ratios to "square out" in these situations. If the ratio comes out at 0.786 then the target for the move down from D will be 1.272 of BC.

In an uptrend you just reverse the diagram demonstrated for the downtrend example.

In an uptrend I wouldn't treat this as a buy signal but I would treat it as a sell signal in a downtrend if other supporting geometry is present. In a downtrend you have the lower highs and lower lows in your favour and the market strength would look weak to most players.

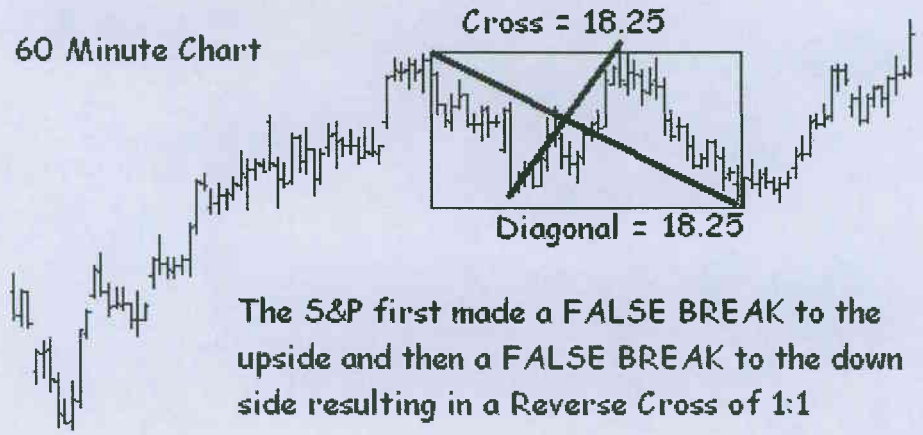
The main benefit of understanding this geometric formation is that when it occurs it will set you up for the continuation move that comes out of it.

Just remember there is no need to trade everything that comes along, just trade when you are sure your trade has a good chance of success.

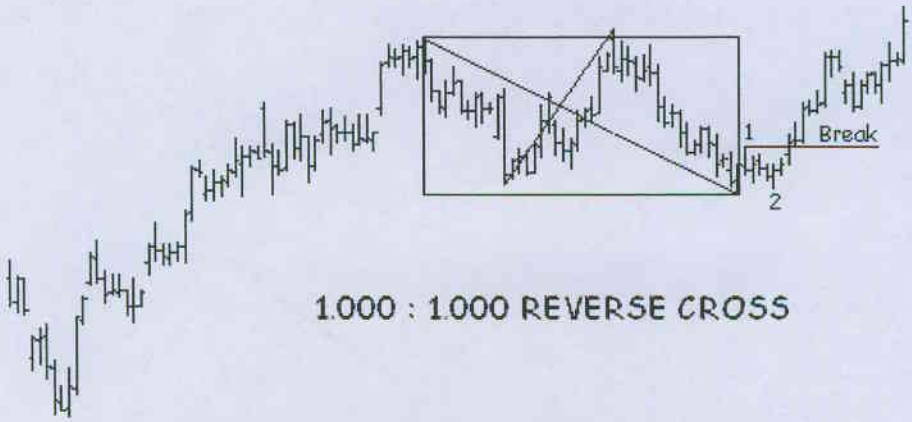
The 1.000 : 1.000 REVERSE CROSS:

When you get a 1.000 to 1.000 Reverse Cross it is most likely it will be associated with a pattern that contains false breaks as the CD leg is overbalancing the amplitude of the AB leg.

Here's an example that occurred recently:


60 Minute Chart
Cross = 18.25
Diagonal = 18.25
The S&P first made a FALSE BREAK to the upside and then a FALSE BREAK to the down side resulting in a Reverse Cross of 1:1

The sign to buy was not confirmed until the market made that 1st little 1-2 outside the Rectangle and then broke out of the consolidation pattern.

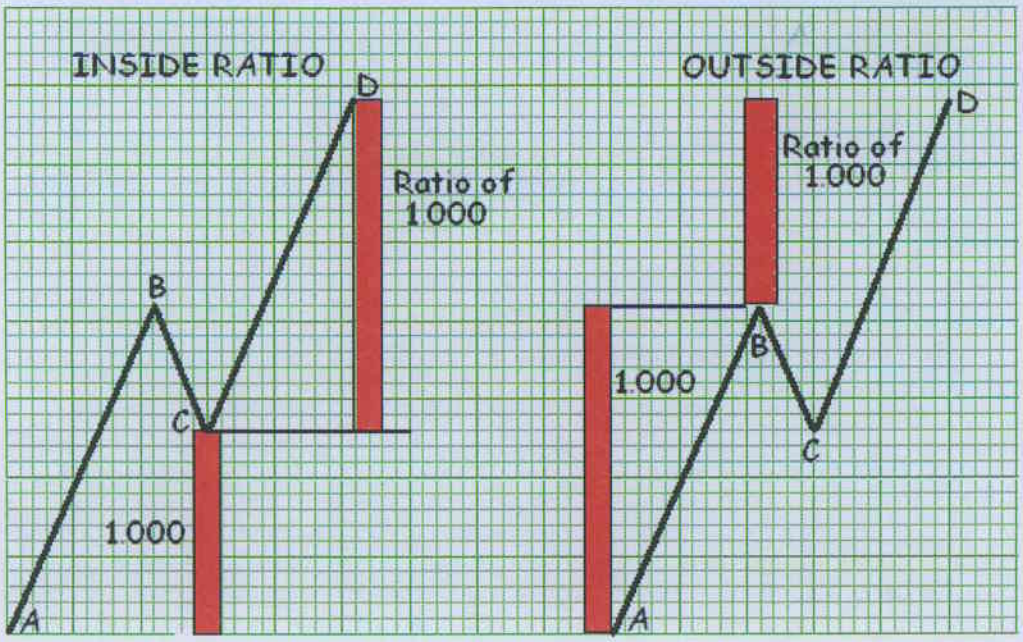


If you are having trouble understanding what the geometry is telling you then you had better remember to check the Reverse Cross Formation as it may hold the answer.

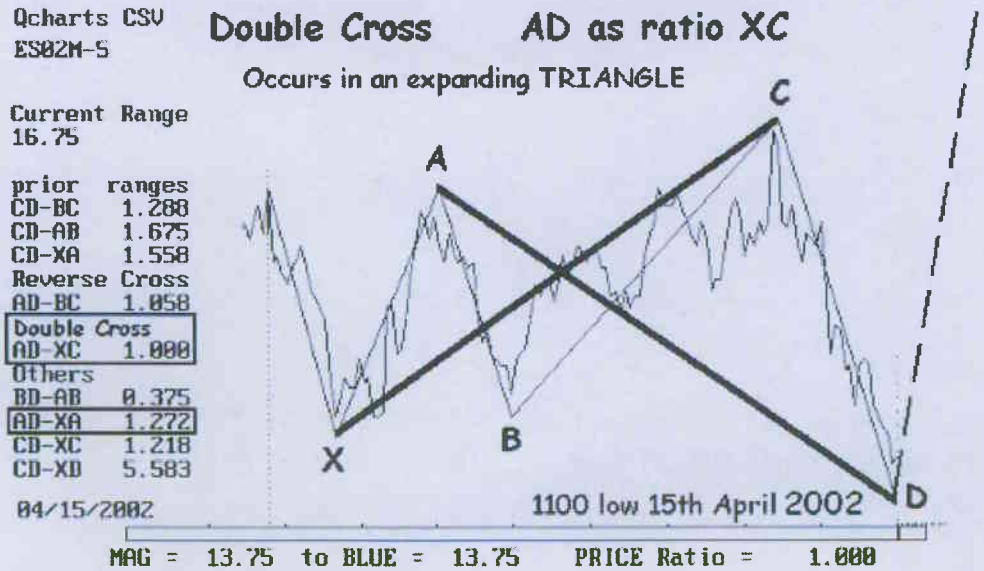
Section 2: Chapter 7:

Inside, Outside and Double Cross Levels:

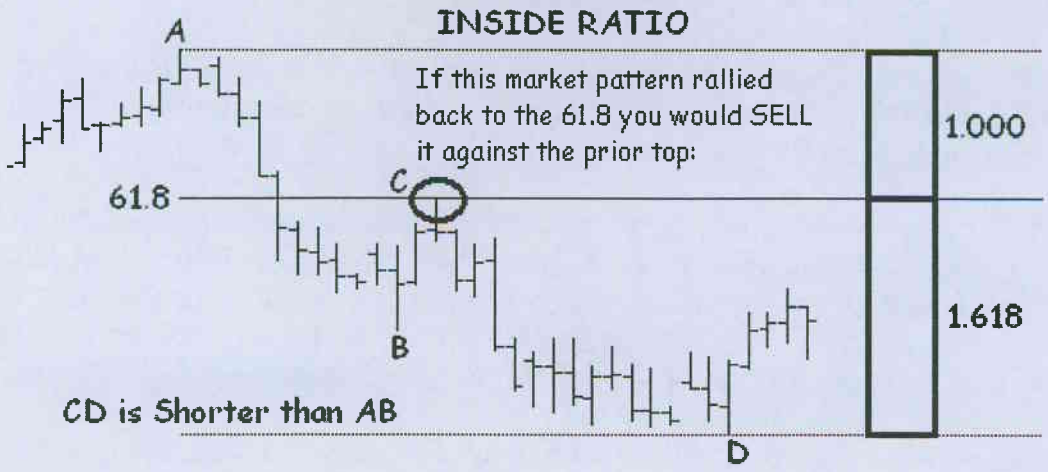
These measurements are just another way for you to see if the unfolding geometry is working to some preordained geometric plan.



If CD terminated on ratios of 1.000, 1.618 or 2.000 with AC or BD terminated at ratios of 0.618, 1.000 or 1.618 with AB they would be very strong signals.

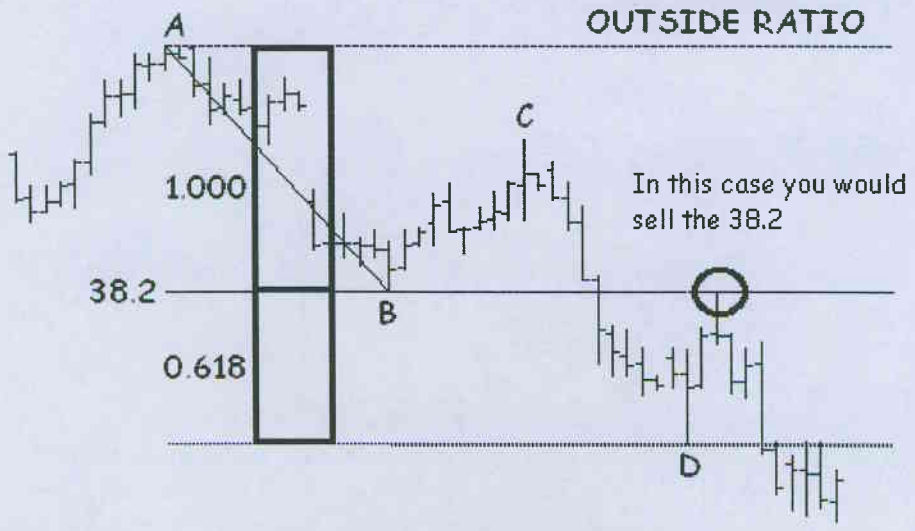


Both the INSIDE & OUTSIDE ratio relationships often come back into play as a retracement level of some future significance so stay alert to them.



If you examine all the options as the market moves along you will see where the geometry comes back into sync.

The more geometry that comes out at prior high and low swings the greater the significance is, then they will act as a support or resistance if the market comes back to test them.



There is no excuse for not knowing the internal price geometry that the market is working to.

Section 2: Chapter 8:

Bryce's X-ABCD Geometric Price Approach:

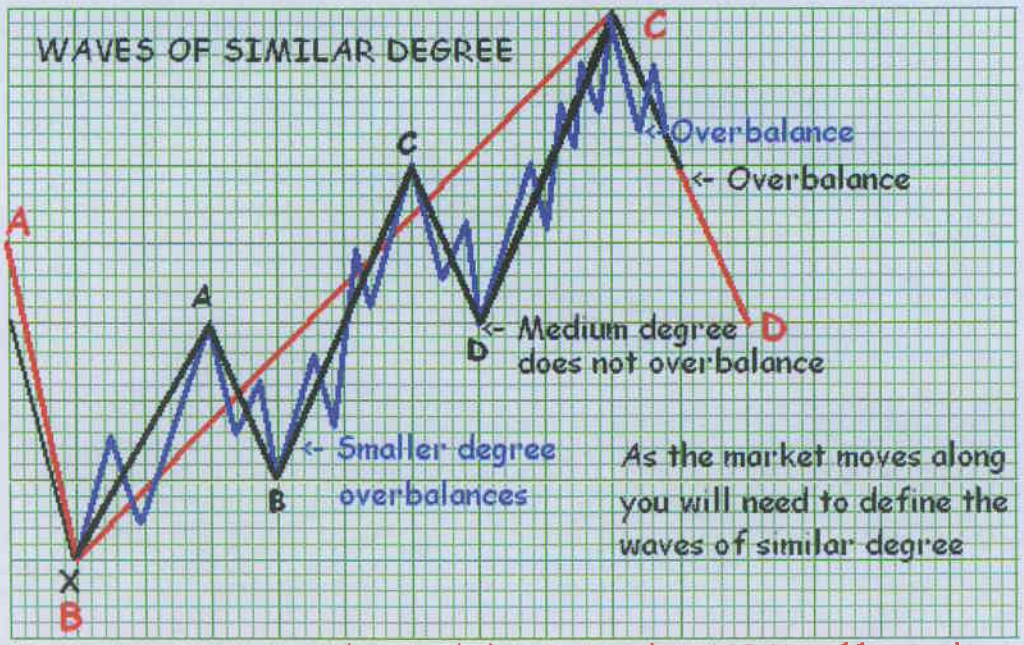
Now that I have explained the geometric structures that are possible in the unfolding market patterns you should have a basic understanding of where we are going with all this.

The first thing to remember with my approach is that wave geometry will form in small, medium and larger degree wave structures. Ratios that bind the smaller degree to the medium degree and the medium degree to the larger degree are the critical market points. That is, at these levels the market can signal a reversal of trend or it can confirm a continuance.

As traders we need to consider the way the wave structures develop. Potentially there are 100's of ways a bull or a bear trend can develop and play itself out. But along the way there will be very clear geometric signs that we will witness which will allow us to take trades at critical points and control our risk.

Before you embark on this expedition of discovery you need to be clear on determining which waves are of similar degree.

I have one rule for determining this – the overbalancing rule. This is where when any set back to a trend exceeds a prior set back in the current wave series. If this happens I assume the wave structure is then working to the next level and I will recalculate all my target objectives.

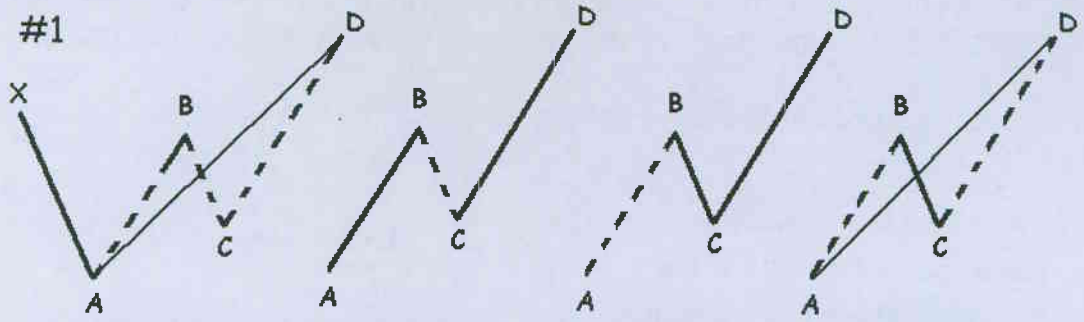


It is important you understand this to use the XABCD effectively.

RATIO TESTS REQUIRED:

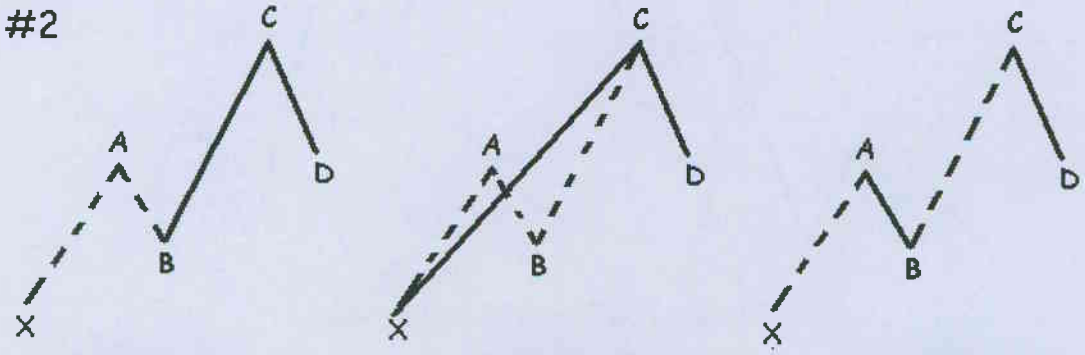
PRIMARIES:

#1



AD to XA DIRECT | CD to AB 1st ALTERNATE | CD to BC DIRECT | AD to BC REVERSE CROSS

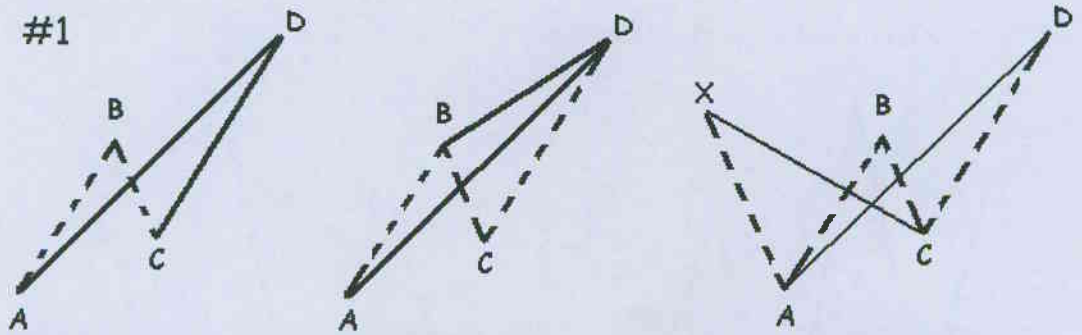
#2



CD to BC Retracement 1 | CD to XC Retracement 2 | CD to AB 1st Alternate

SECONDARIES:

#1



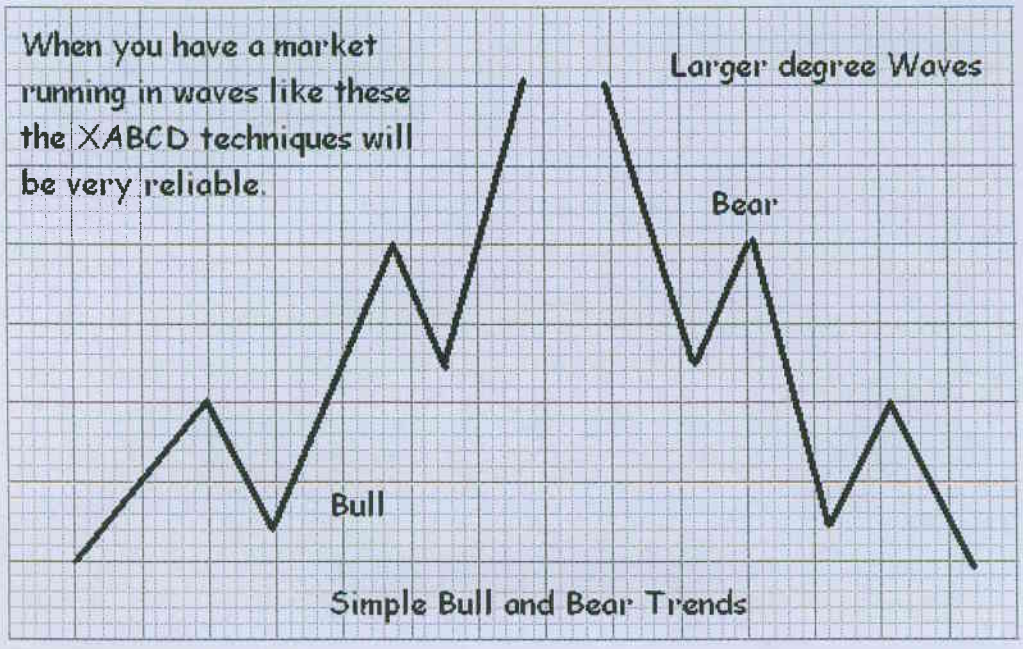
CD to AD INSIDE CROSS | BD to AD OUTSIDE CROSS | AD to XC DOUBLE CROSS

These are examples of the wave forms you will be measuring.

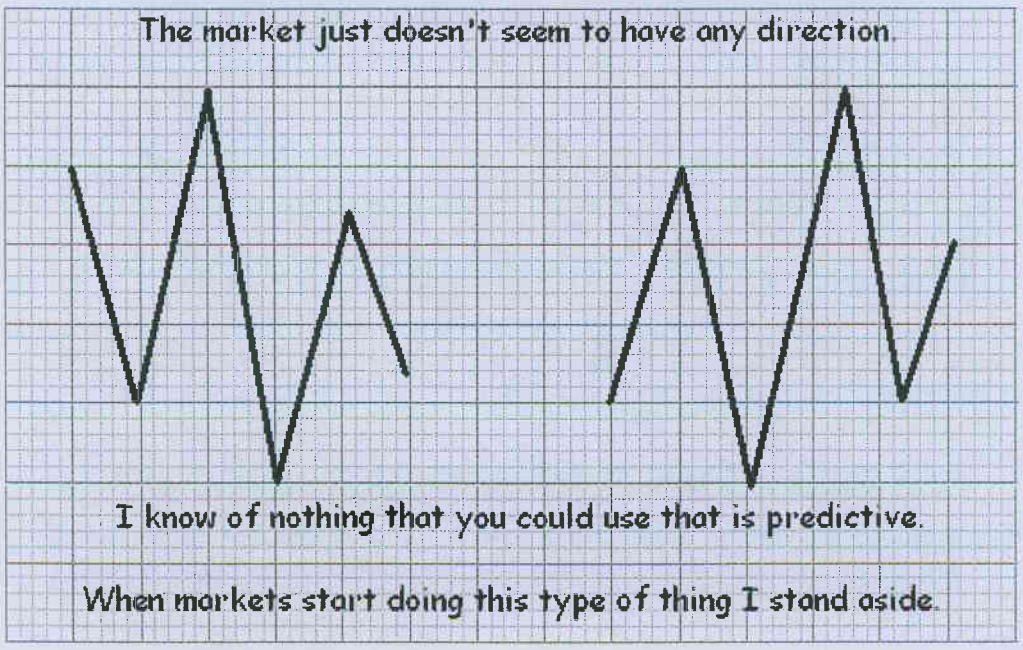
BUT IT IS IMPORTANT HOW THE WAVES FIT TOGETHER:

Some combinations will be important and others just won't mean anything. The best thing I can do is to go through the possibilities of the wave formations and try to point out what I think are the important combinations.

Straight out bull or bear trends in development are the easy ones to read.


When you have a market running in waves like these the XABCD techniques will be very reliable.
Larger degree Waves
Bear
Bull
Simple Bull and Bear Trends

Now if you get into situations like these below it might cause some confusion to other operators using geometry so they will not be as committed when the ratios between the waves come together. Stand aside or go on holiday is my best advice.


The market just doesn't seem to have any direction.
I know of nothing that you could use that is predictive.
When markets start doing this type of thing I stand aside.

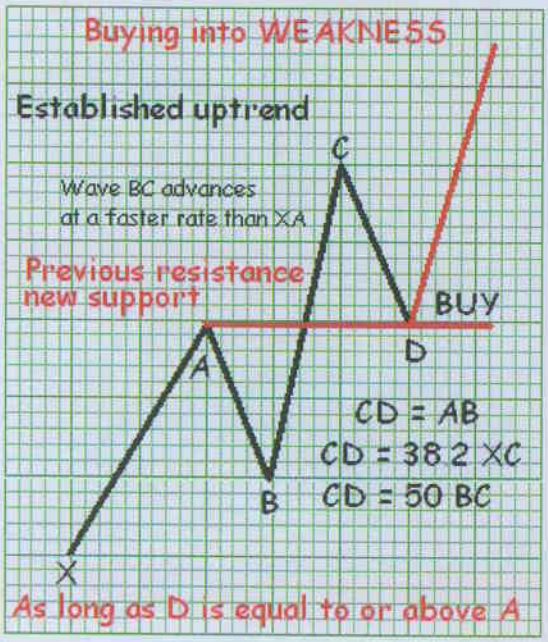
FROM A TRADING POINT OF VIEW:

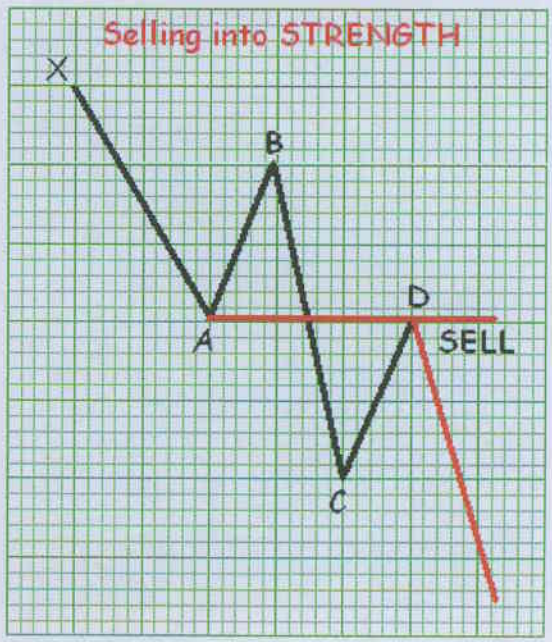
As the market moves along it encounters geometric situations that will influence traders who use ELLIOTT WAVE techniques to buy and sell.

The majority of informed traders are aware of the retracement rules that apply to the ELLIOTT WAVE theory and Elliott's theory of expansion.

1. Wave 2's will normally retrace 50% or more of the prior advance.
2. Wave 4's will normally find support on a 38.2% retracement.
3. Wave 4's cannot exceed the price amplitude of wave 2's.
4. Wave 3's will be greater in amplitude to wave 1's.
5. Wave 5's can extend or they can fail.

These are general rules that apply to **ALL** wave degrees and it pays to know them so you will be able to understand why other technical traders are acting the way they do. The big point to remember is that traders who have survived in the market and learnt to make money from it are habitual people. The better ones are basically mind readers like myself but they all know the rules.
The best opportunities for a profit are to buy into weakness or sell into strength when the market is correcting against an established trend and is ready to reverse back into the larger degree trend.





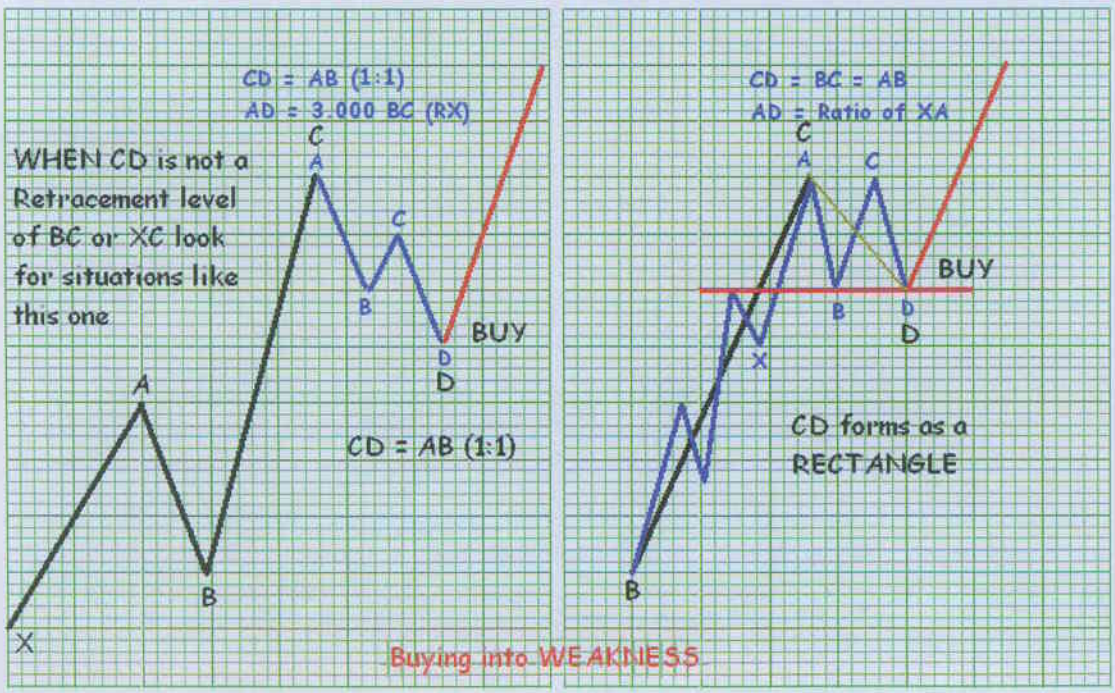
This example would be the perfect set up but as long as point D did not overlap the prior resistance or support at point A the ratios would be enough on there own to signal a reversal. If two of the ratios are present, i.e., a 1:1 Alternate with the prior correction, or a 38.2 of XC or a 50 of BC a reversal is almost certain. If CD to XC is 38.2 and CD to BC is 61.8 that would be odds on as well.

The ratio combinations of CD – XC and CD – BC that are important: -

1. 38.2 / 50
2. 38.2 / 61.8
3. 44.7 / 70.7
4. 48.6 / 78.6
5. 33.3 / 66.7
6. 35.4 / 70.7
7. 33.3 / 57.7

I need to mention that when a strong trend is in force the impulse waves will normally take on a steeper appearance to the prior impulses. This means that when a correction is over and done with the market should take off like a rocket as it steps back into trend. If it doesn't you should beware because it may be out of steam.

Now if there is other geometry in the lesser degree waves such as a 1:1 or a reverse cross as the larger degree correction comes into a retracement ratio it will also signal a reversal. Sometimes you will not get a retracement level of BC or XC at point D but there will be convincing pattern and geometry in the smaller degree wave structure.

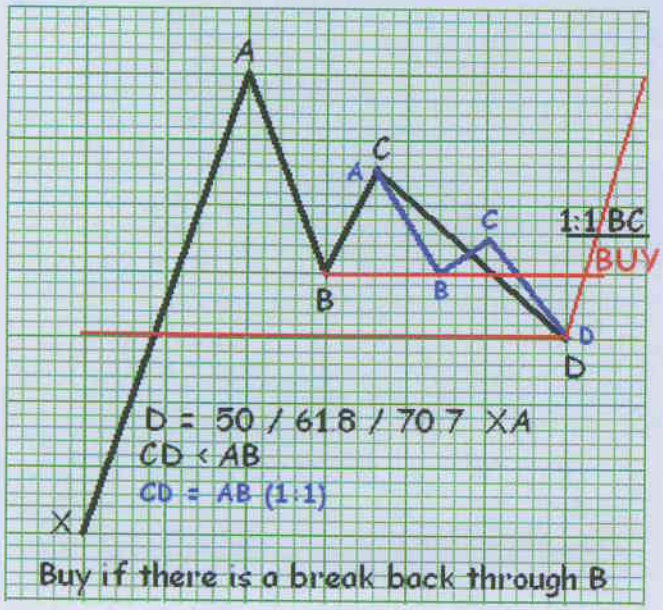


These same situations also apply to a bear pattern as well. In a bear pattern the CD to BC ratio will most likely not exceed 38.2 if the trend is strong.

Before you apply these rules to buying or selling into weakness and strength the prior trend must be clearly visible. If the market had not been in a strong trend prior to its current correction it would be much more prudent to wait for a breakout trade or a correction to the next advance.

When the trend is not obviously strong and the retracement exceeds 38.2 of XA:

You need to be careful when the trend in progress before the current corrective waves was obviously not a strong thrusting move. The market could reverse on a retracement level of XA only to go back and retest the breakout point at B. It could also break back inside the BC range and terminate on a 1:1 with BC.



Rules for buying a RETRACEMENT of XA

1. There should be evidence that the smaller degree has some geometry.
2. Be careful of the 1:1 with BC as a resistance level to overcome.
3. The trend change is not confirmed until the 1:1 BC is overbalanced and prices exceed level C.

It pays to be careful in situations like this because a 50, 61.8 or 70.7 on its own would attract Elliott Wave traders. What you don't know to start with is if the support at D was just because of profit taking or not. If the 5-minute bar that terminated at D contained a very high volume then the reversal is more likely to succeed in the bigger picture.

My first instinct if the reversal at D was on low volume would be to sell the retest of B, even if the price broke back above B and volume did not increase I would sell the 1:1 with BC from D. If that didn't work I would become a buyer.

Just relying on geometry on its own is not good enough as any reversal of substance should be obvious by attracting more trader participation.

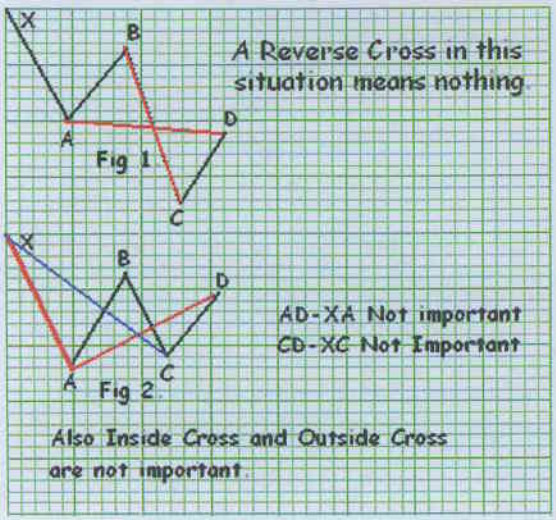
When it is all said and done any reversal to trend should show high volume on a 5-minute bar to be valid.

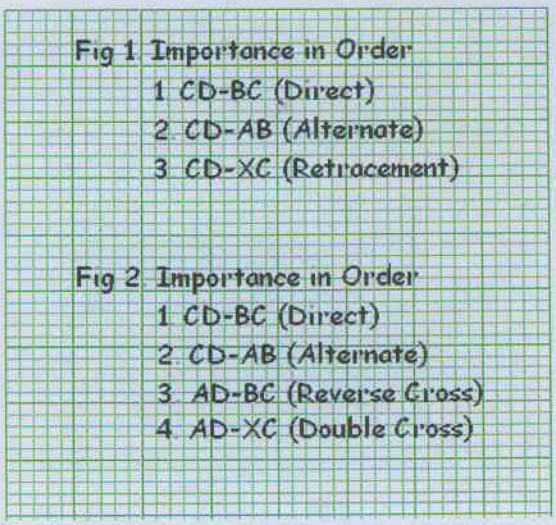
For that matter when the market is heading in a constant direction for more than two 5-minute bars and the volume is increasing, you can nearly bet the move will continue for a while after that. Whichever direction is fuelling the volume is the direction you want to be going in. As soon as the volume dries up it is time to take your profits.

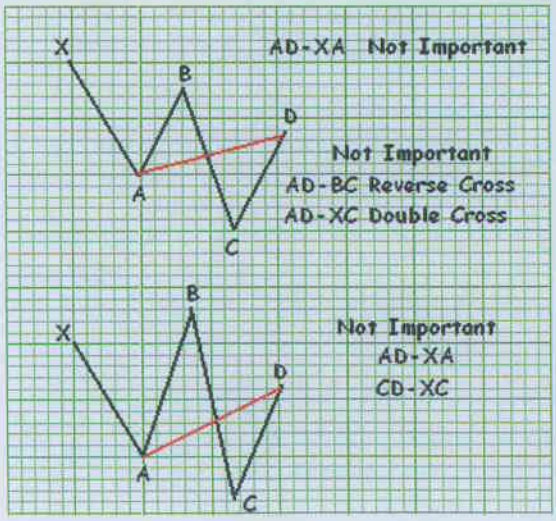
XABCD ratio situations that are not valid signals:

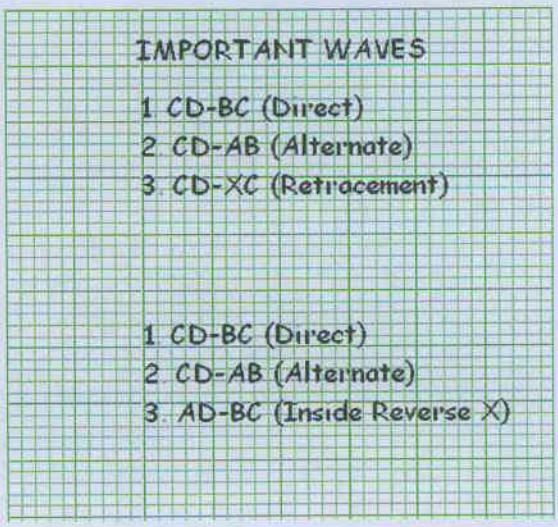
In certain situations some wave configurations will mean nothing at all and if you think they do you will be using false information.

The ones that mean something I have outlined on the right. A CD-BC direct is always important and so is the 1st Alternate CD-AB.









Depending on the wave structure there can be up to 9 wave structures that can relate on ratio, but normally only about 3 or 4 are important.

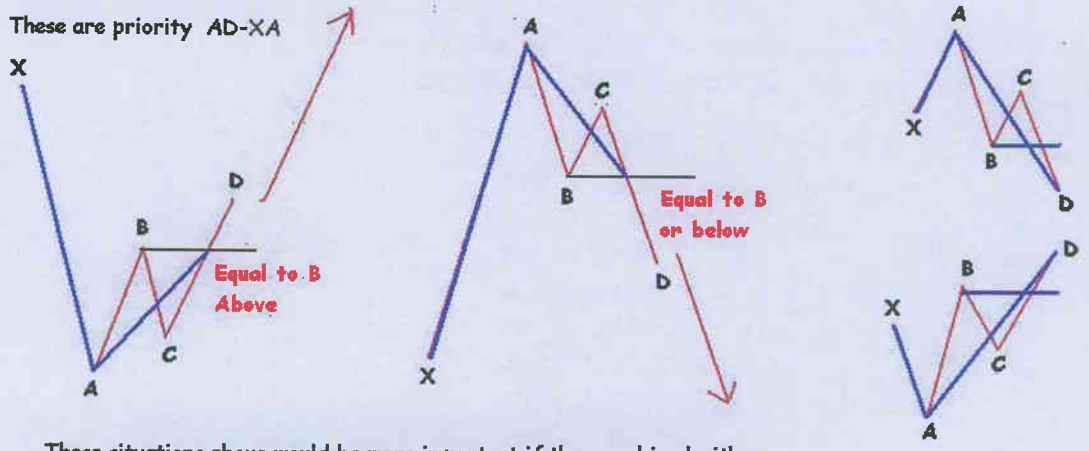
What I am looking for most of the time is situations where anyone using Elliott Wave can recognise the obvious geometry. The signals need to be strong enough for them to put their money on the line.

When the signals are not obvious to everyone in the know and still the market reverses you should always be able to justify why after the event. Then if the unfolding patterns confirm a reversal you will be able to trade the new direction with more confidence. This business is always about probabilities.

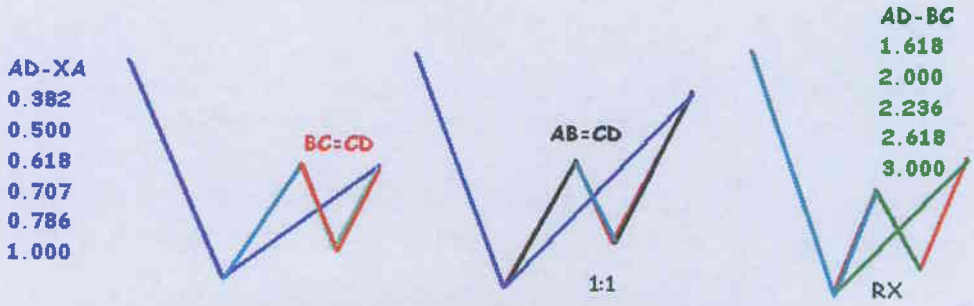
This chapter may appear to be a little disjointed from the flow of this manual for a period because I have rewritten this chapter on the XABCD just before publication in May 2004. The reason I have done this is to introduce a new aid to trading I have had in development for some time since the original draft was conceived.

We have developed the Bryce's XABCD program as an add-on to the Esignal advanced intra-day charting platform. It is a visual program that you can use to apply all the things I have been teaching you in this manual in real time trading conditions.

I have been drawing more and more illustrations for my TTW group lately to clarify the importance of the system and have decided they need to be included in this chapter.



These situations above would be more important if they combined with a 1:1 Alternate or and outside Reverse Cross at point D

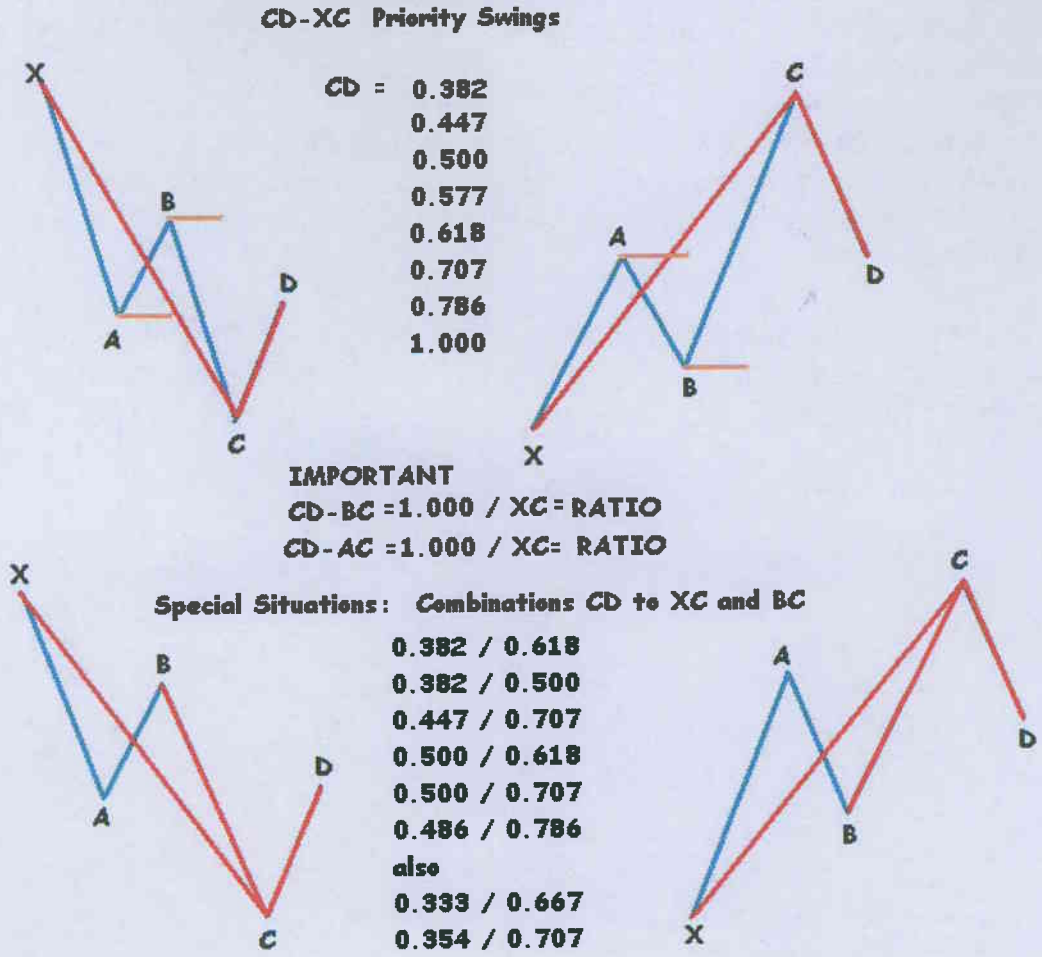


These examples can be reversed for the case where X is a low

If you were to find the market pattern in any of these situations there would be a very good chance that you could scalp it for a reversal first and then add on more confirmation. Or if it kept breaking out through the geometry you could trade it for the next target zone.

These points of geometric force act as our road map as we move along through the day.

Something a little simpler:



A reversal at D will be at least a scalp at the very worst but it could turn into a major reversal that takes the market to new lows or highs.

Signs like these are GOLD if the market appears to be in a steady uptrend or steady down trend prior to the correction you are looking for the termination of.

The main thing to keep in mind is that there should be no extra outside influences about to hit the market. If the news is already in the market and it is being absorbed at a steady rate the market should continue to trade technically.

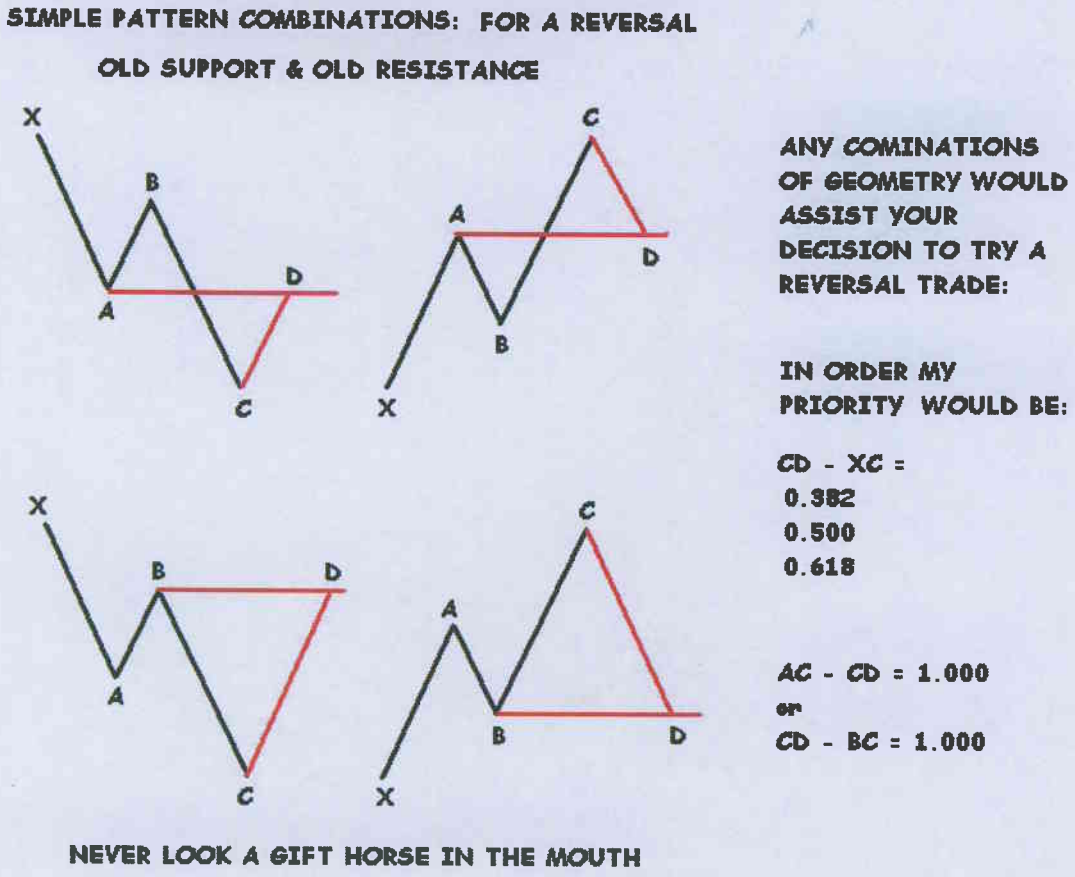
When you get a RHYTHM PHASE in a price series of waves that allows for the future critical price level to coincide with multiple conjunctions the majority of ratio analysts will pick up on it in advance.

If they feel comfortable that is where they will target their orders for profit taking or a reversal of trend. Take advantage of it if you can recognise it.

Prior Support or Resistance levels:

When the market retraces back to a prior pivot point and the CD leg has a ratio of retracement to the XC portion there is a stronger possibility of a reversal.

When the CD retracement of XC falls on a 38.2, 50 or 61.8 ratio the reversal is almost guaranteed.



Anytime you can combine an XABCD signal in with a straight out pattern support or resistance level it will be important.

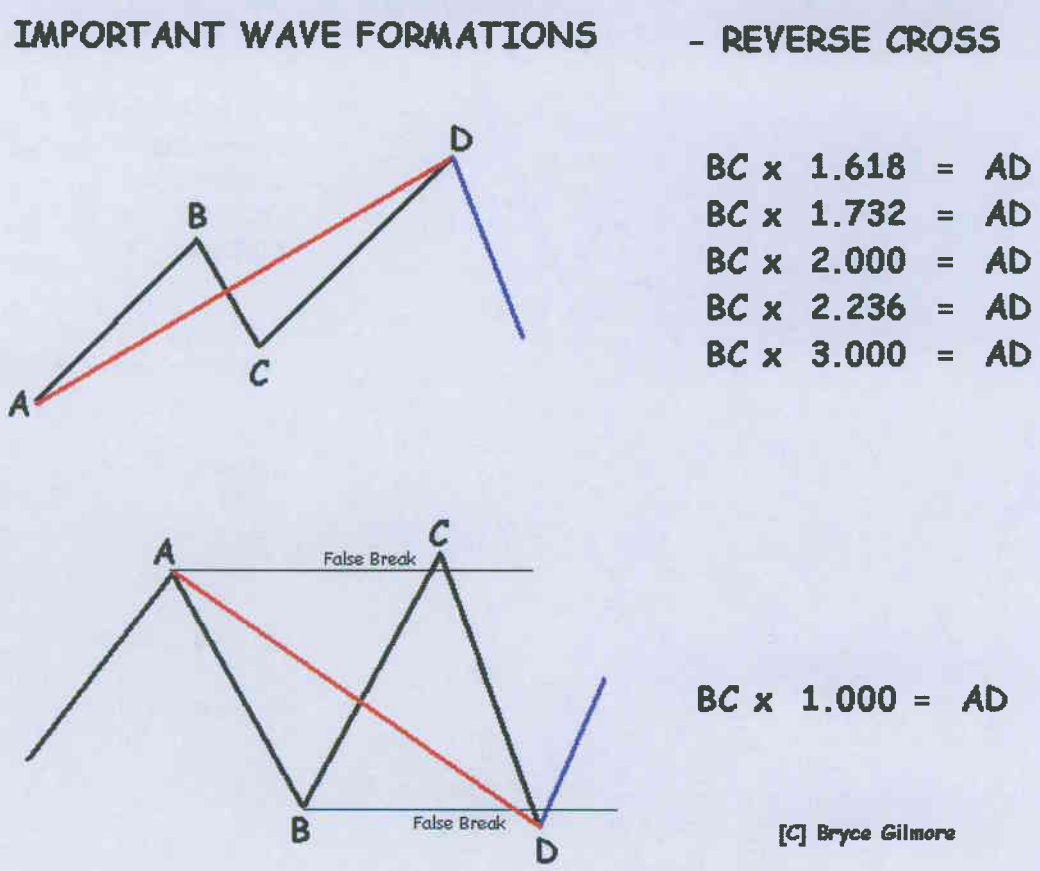
The thing you should appreciate is that there are plenty of traders who just trade off simple pattern rules. Every time the market approaches a prior high or low of some significance they will use that level to buy or sell off. When the level is connected to a wave series by ratio it becomes doubly important because it will attract the attention of the traders using Elliott Wave.

You must always remember there are thousands of traders out there who are using Elliott Wave. It is not important if Elliott Works under the circumstances it is only important what actions the other traders will take.

Special Situations:

It is well worth your time to study the situations where geometry forms in the Reverse Cross configuration.

Sometimes in a progressive market the CD leg will be longer or shorter than the AB leg as the market is trying to reach a level that may "square up" a retracement level to a prior XA leg. The ABCD needs to relate in some way and if the BC and the AB legs don't relate by ratio to the CD leg it will most likely relate in the BC-AD Reverse Cross configuration.

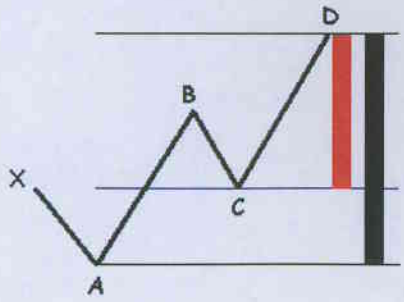


The lower formation on this illustration was something I have witnessed more than once. It can be confusing at the time because in both instances the market made a false break to the upside and then a false break to the downside. It sort of rules out the RECTANGLE formation because CD is greater than AB.

But if you were just using pattern as your trading guide the rules of engagement with false breaks is to immediately reverse back the other way when a breakout fails.

When you have geometry to substantiate the price at D it gives you more confidence.

IMPORTANT WAVE FORMATIONS - INSIDE CROSS

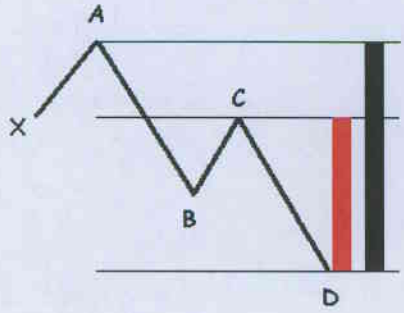


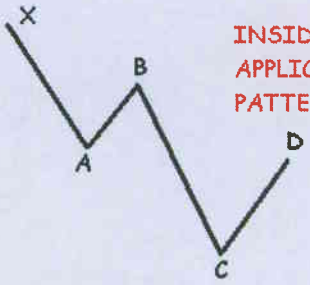
Inside Cross CD as a Ratio of AD

IMPORTANT RATIOS ARE:
61.8% 50% and 38.2%

This makes the last wave CD
0.618, 0.500 and 0.382 of total ABCD

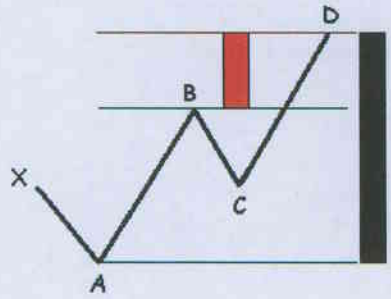
Other CD/AD ratios are possible:
0.333, 0.447, 0.577, 0.667, 0.707, 0.786





INSIDE CROSS IS NOT APPLICABLE TO A PATTERN LIKE THIS

IMPORTANT WAVE FORMATIONS - OUTSIDE CROSS

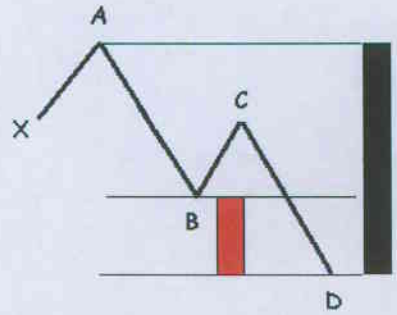


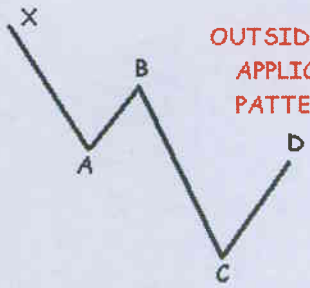
Outside Cross BD as a Ratio of AD

IMPORTANT RATIOS ARE:
61.8% 50% and 38.2%

This makes the distance of BD
0.618, 0.500 and 0.382 of total ABCD

Other BD/AD ratios are possible:
0.333, 0.447, 0.577, 0.667





OUTSIDE CROSS IS NOT APPLICABLE TO A PATTERN LIKE THIS

These are internal measurements that could be fulfilled to demonstrate a binding relationship within an ABCD conclusion.

COMPLICATED WAVE STRUCTURES:

Some unusual things can occur in wave structures and they don't appear to be clear from an analyst's perspective at the time.

I don't use this configuration as a trading signal at all but it is handy to check the wave structure sometimes to see if they did relate this way.

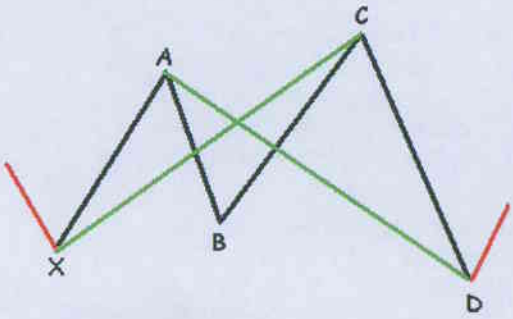
In Elliott terms the market would be in an expanding or contracting diagonal triangle.

This type of pattern would most likely occur in the smaller degree wave series somewhere along the way between a significant market high and a significant market low or vice versa. In which case it will be either a distribution or an accumulation type pattern.

Yet it is possible it could occur at a significant market high as some type of head and shoulders type pattern. In which case it will be a formation between higher degree waves.

If it is a market high or low termination a new trend of major degree will begin from level D.

IMPORTANT WAVE FORMATIONS - Double Cross

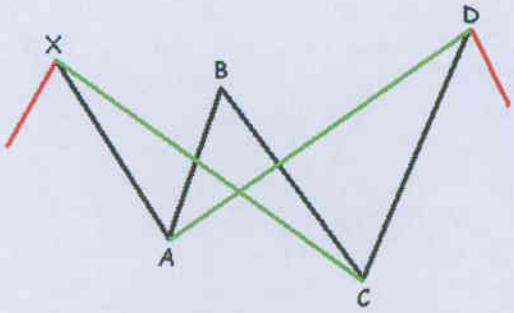


[C] Bryce Gilmore

The only important Ratio is a 1:1

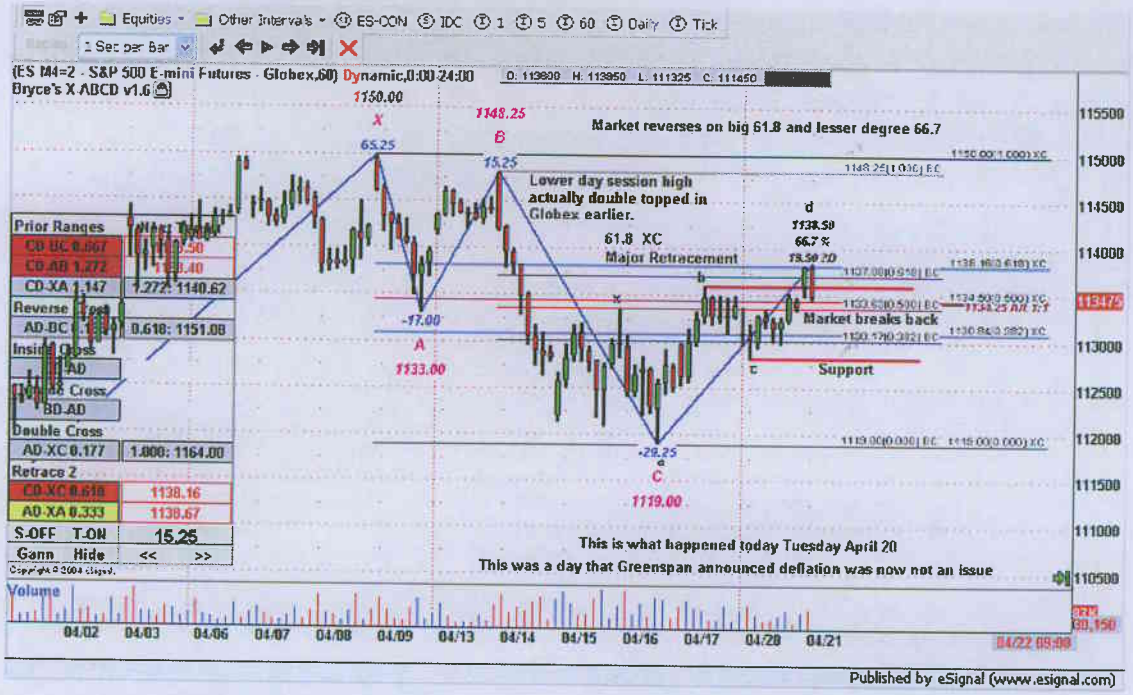
I wouldn't get to involved with this one but if it comes out as a 1:1 then it could be an excellent signal.

AD = XC as a 1:1

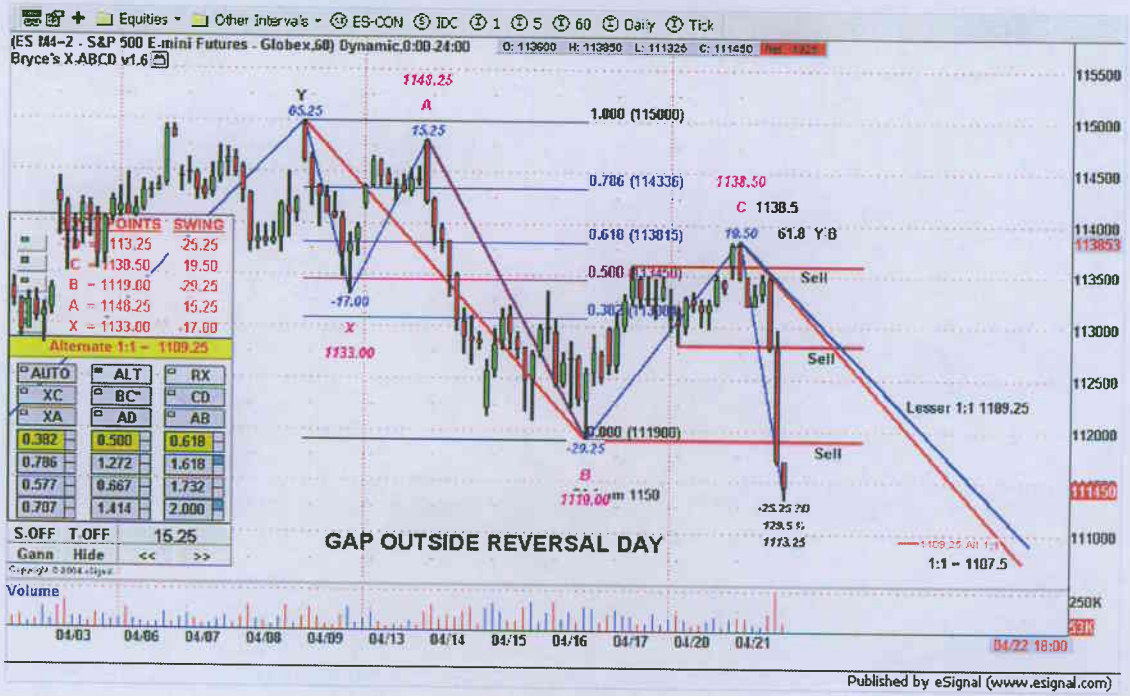


There could be some supporting geometry involved such as :-
CD/BC = 1.272 or
CD/AB = 1.618 or
AD/XA = 1.272

Here is a reversal day that really got them going:


Market reverses on big 61.8 and lesser degree 66.7
Lower day session high actually double topped in Globex earlier.
61.8 XC Major Retracement
Market breaks back
Support
This is what happened today Tuesday April 20
This was a day that Greenspan announced deflation was now not an issue
Published by eSignal (www.esignal.com)

April 20th 2004: The market opened at 9:30 ET at 1136 on a break out – the overnight Globex had already been to 1138.5 in early trading, the 61.8 retracement of XC. Greenspan was going to talk to Congress regarding his current opinion of the economic situation in the USA, so the day had an air of indecision about it to begin with. As the day wore on the 61.8 and the break back through 1136 became the technical concerns. Buyers fled the market when they thought the FED would soon raise interest rates from the 1% that everyone had been enjoying for many months now.



Now the next day Chairman Greenspan appeared again before the Joint Economic committee in Congress and toned his remarks down somewhat. He inferred that the rate increases would not be needed immediately but warned that they were inevitable. The market rallied. When a congressman asked him why the stock market went down so sharply after the televised session yesterday? He replied, "I read in the newspapers today saying that I was responsible, (and with a smile) but I don't know what the market will do."

Latest Updates Add to My Yahoo!

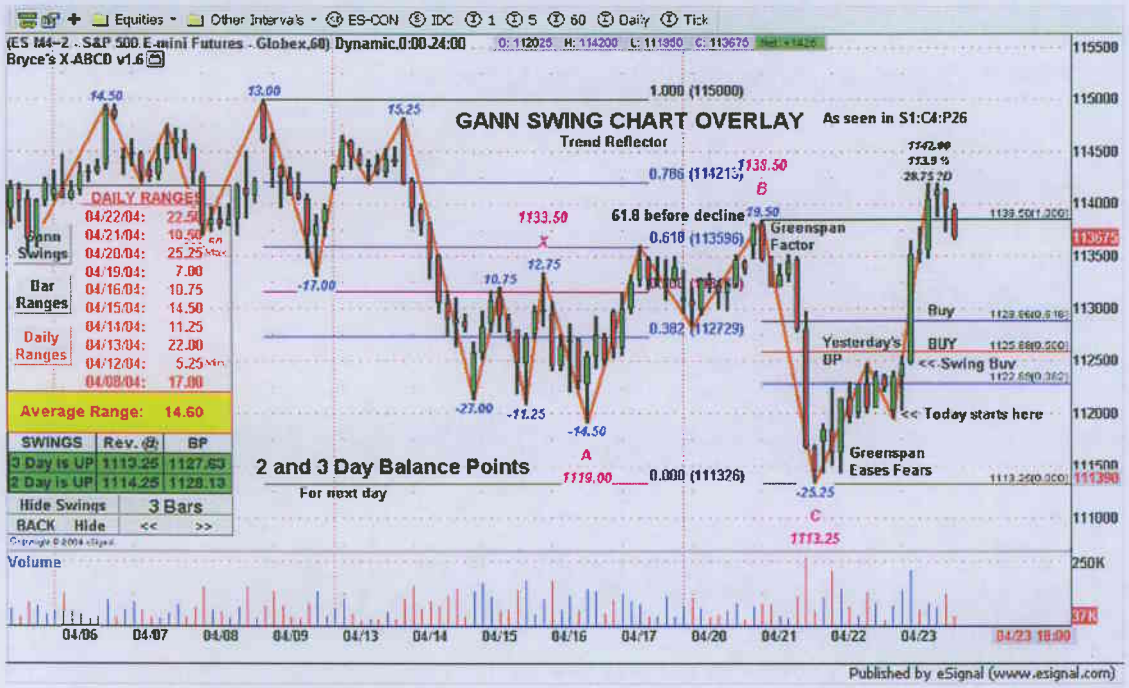
Close Dow +2.77 at 10,317.27, S&P +5.97 at 1,124.12, Nasdaq +17.00 at 1,995.63: Today's session could be separated into two parts, with the first being during Chairman Greenspan's testimony in front of the Joint Economic Committee and the second being after the said event... Note that this was the second day that the Fed Chairman managed to ruffle traders' feathers... In yesterday's session, Dr. Greenspan's rather innocuous comments regarding the absence of deflation and banks being ready for higher interest rates led to a 1.2-2.1% sell-off in the major averages...

Today, the first part of the session was spent with the major averages trading in a choppy fashion as participants continued to weigh the benefits of the generally better than expected earnings reports, highlighted by Motorola's (MOT 19.30 +3.08) stellar results, with the prospects of rising interest rates and accelerating inflation... The Chairman, for his part, appeared less hawkish, saying that the fed funds rate will have to rise at some point, but indicating that as of yet, the protracted period of monetary accommodation has not fostered an environment in which broad-based inflation pressures appear to be building...

As a result, the market breathed a sigh of relief when Dr. Greenspan's testimony was over and spent the rest of the afternoon drifting with a slight upward bias... The major averages closed well off their session lows and in positive territory, with the Nasdaq at fresh session highs... Accordingly, the bulk of the sectors closed in the green, with leaders to the upside including the internet, networking, semiconductor, telecom, biotech, healthcare, hotel, airline, and industrial sectors... Among the laggards of note were the gold, metal mining, coal, iron & steel, aluminum, and paper products groups...

Like the stock market, the bond market also had a volatile session, with the 10-year note closing within a short reach of its highs, up 6/32, bringing its yield down to 4.43%...NYSE Adv/Dec 1560/1771, Nasdaq Adv/Dec 1880/1262

Two days later:

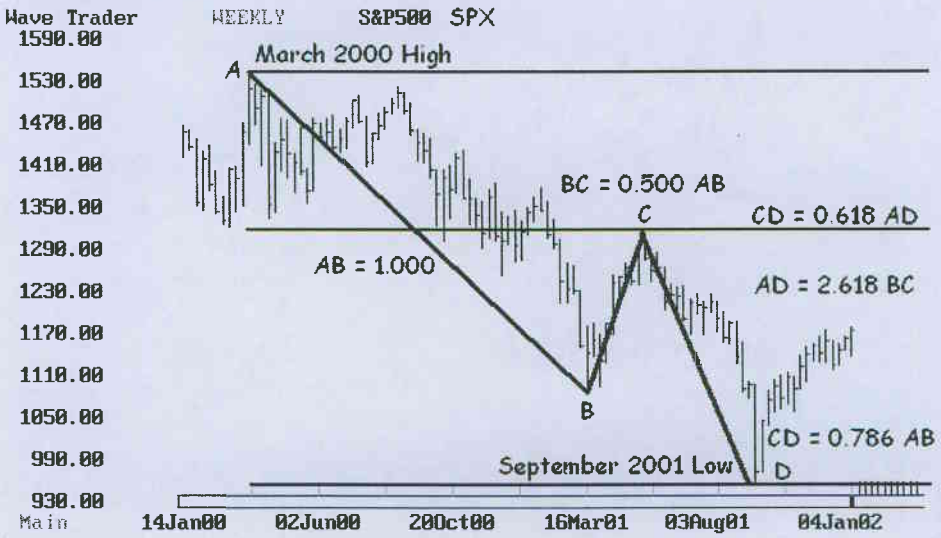


As the band plays on there is a craziness to the music and it continually sends out signals to you. You either recognise them or you don't.

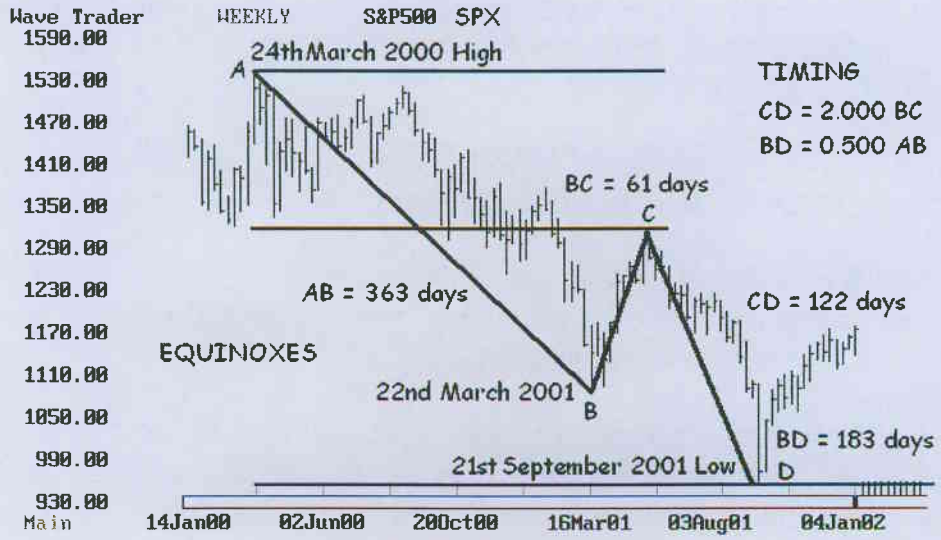
Section 2: Chapter 9:

Some examples of X-ABCD Geometry:

Over the past few years I have been saving charts of the X-ABCD geometry that was present at important reversals of trend. Sometimes they are as clear as a bell other times they have been obscurely esoteric.

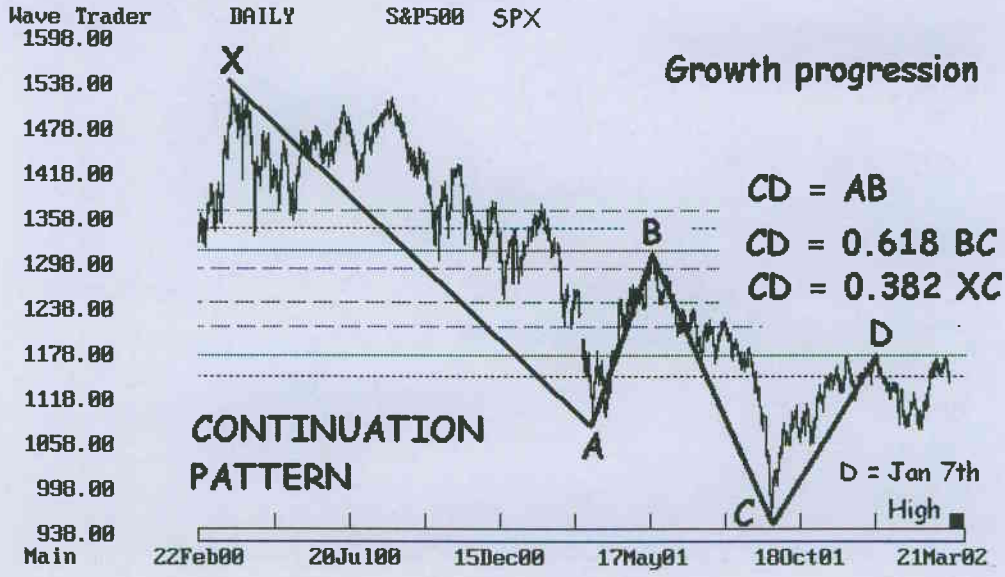


This was how the price geometry in the big picture came out when the S&P500 made a major low in September 2001. This low came in 10 days after the 911 disasters when the terrorists crashed two planes into the New York Twin Towers. The timing was perfect for a low when it came in.



The rally that began from the September 2001 low terminated on January 7th, 2002 on a 38.2 retracement of the entire bear market.

In Elliott terms this was perfect as 4th waves often terminate on a 38.2 retracement. It wasn't until the double top on March 19th, 2002, 6 months from the September low that the bulls were totally worn out and the market set off downhill at an amazing pace.



When you go back over the geometry at the major swings in the bear market to this point you can conclude that there is a definite Elliott Wave influence in this market. Whether it is preordained or simply a side effect from people acting on mass using technical tools they have learnt from all the published methodologies is not important to me. The only thing that is important to me is that it happens.

The point is you need to keep track of the geometry so you will know when it all comes together again. If you don't you will be left in the dark when the opportunity to profit comes along.

You must never forget how important the 61.8%, 50% and 38.2% retracement can be in the minds of technicians.

1. Point B on the chart above was a retracement of 50% of the XA range. It is well known that I told all my people about the potential a day before the market reversed at that point in May 2001.

2. Point D on the chart above was a retracement of 38.2% of the XC range and a 61.8% retracement of the BC range. I am also on record as telling my students well in advance the importance of this level well before we got to it.

Once the ball started rolling the decline began to feed on itself, news of fresh bankruptcies and company fraud abounded. It was clear to me at the time that the market was in a free fall.

ACCURACY IN RATIOS:

I am convinced if you want these methodologies to work for you then you must adopt a policy of accuracy. By accuracy I mean you need to work to the third decimal place. If you don't you will only be fooling yourself. My benchmark is 2 trading ticks. If the accuracy is not this exact I have to justify other reasons why.

It does not matter what the market pattern looks like as long as you can differentiate between the waves of similar degree.

A good starting point is to work with a 3-wave sequence and see what you can make of it. After that add the 4th wave and see what becomes of it. If you already know what went before it should become as clear as a bell if the next reversal fits into a ratio progression.

If you follow my procedures you will find that markets unfold in geometric progressions, if they aren't doing that you do not have a price signal. You should only trade against the prevailing trend when you have recognized a valid signal. This is a discipline you must follow to remove the errors of judgement that creep into any trading plan.

By reducing the market to the previous 4 waves you are still complying with the Elliott Wave theory of markets – that is, all waves of similar degree will relate mathematically in a sacred proportion.

I can't stress the simplicity of this approach enough because as soon as you add extra waves into the system you leave the system open to personal interpretation and that can be dangerous.

If you can find geometric wave sets in two or more degrees of wave structure you will be in charge of the situation 9 times out of 10.

All this work is worth the effort and it has a definite reward.

What you must remember is that each wave in a series should be working out time and price in relationship to what went before. Identifying the degree of the series can sometimes be difficult but it is MORE THAN possible using the X-ABCD approach the way I have perfected it for myself.

When your mind is prepared to believe that this system must give you the answers you can throw away all the false truths you have been taught by others and move onto a higher level of consciousness and understanding.

The approach is DYNAMIC and can be applied to all free trading markets if they trade with sufficient volume and are not manipulated by insiders.

Wave sets should be obvious in all degrees of market movement for you to adopt an opinion that the trend will change. When you find one wave set that fits your criteria go further a field and look in the larger degree to see how significant your target point is in the larger scheme of things.

Knowledge is power never forget it. Over the years I have called 100's of market reversals either in advance or on the day, sometimes the day after if the market pattern needed to confirm my signals. But never more than a day out. The strongest trades come when you get the confirmation in any case.

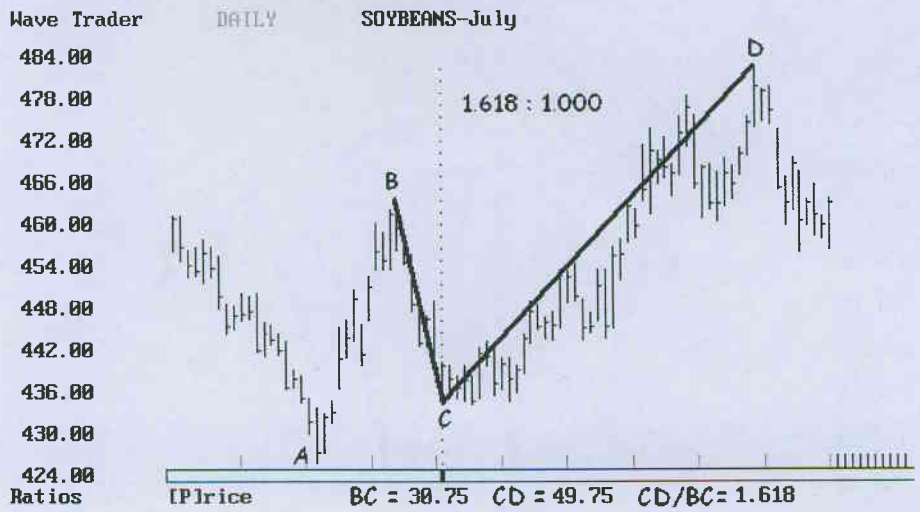
Dual Ratio combinations in waves of similar degree often signal reversals of trend or the beginning of a correction in similar degree. If the market does not correct and continues through the "SIGNAL LEVEL" the signal becomes a non-confirmation and confirms a continuation. Whichever is the case the signal becomes a trade entry point.

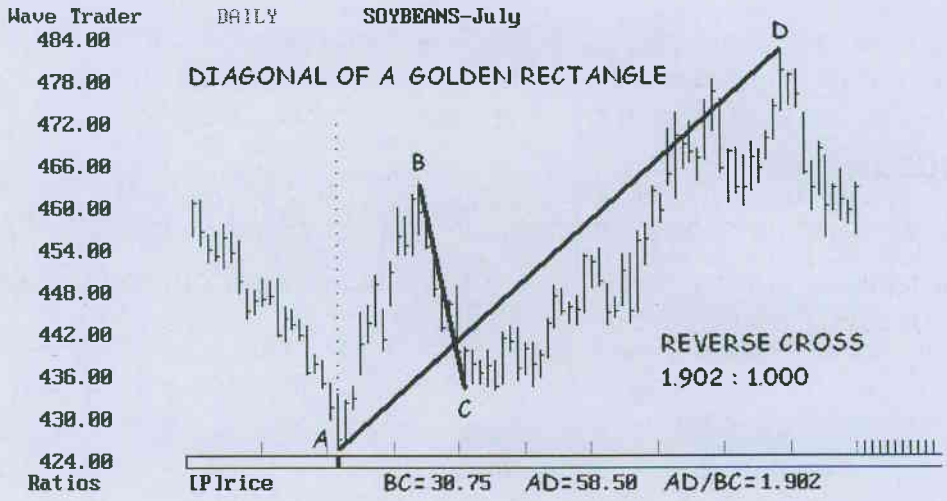
This is the most valuable information I can pass on to you, trust it, forget all the other things people have taught you unless the market fits a geometric criteria. I promise you it will save you a lot of heartbreak and make your trading selection process far easier to deal with.

This stuff is like magic if you can understand it – you will only understand it when you lose your impatience and learn to open your eyes and take a little in at a time.

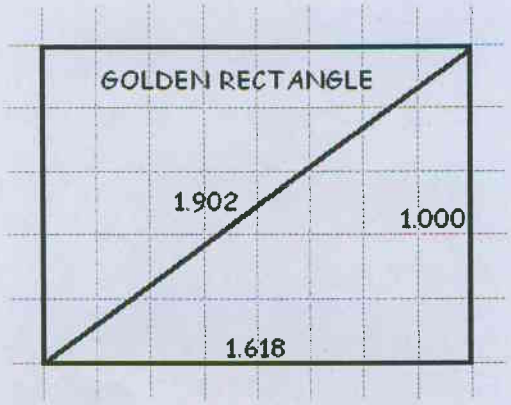
Following is a geometric situation I recorded in the July Soybean contract at a corrective high in April 2002.

The ABCD fell together like this:





The significance is geometrically a Golden Rectangle formation.



ALTERNATE WAVES IN A SERIES:

The recent July 14th double top with June 17th 2003.

The 1:1 Alternate Wave levels are the best to target in the intra-day market patterns, if they are exceeded you look for a continuation. If the market stops on them you can start trading the reversal as the market confirms.

You can see by the way the market advances on the way to the double top were forming 1:1 patterns in the Alternate Waves of similar degree.

Even if this top had exceeded the prior top of 1014.8 which it didn't it would have run into resistance 1 point above and mostly likely reversed in any case. The trade was to sell the double top and place a stop and reverse buy order 1.5 points above the prior high.

All you have to do is read the signs from each swing point to the next.

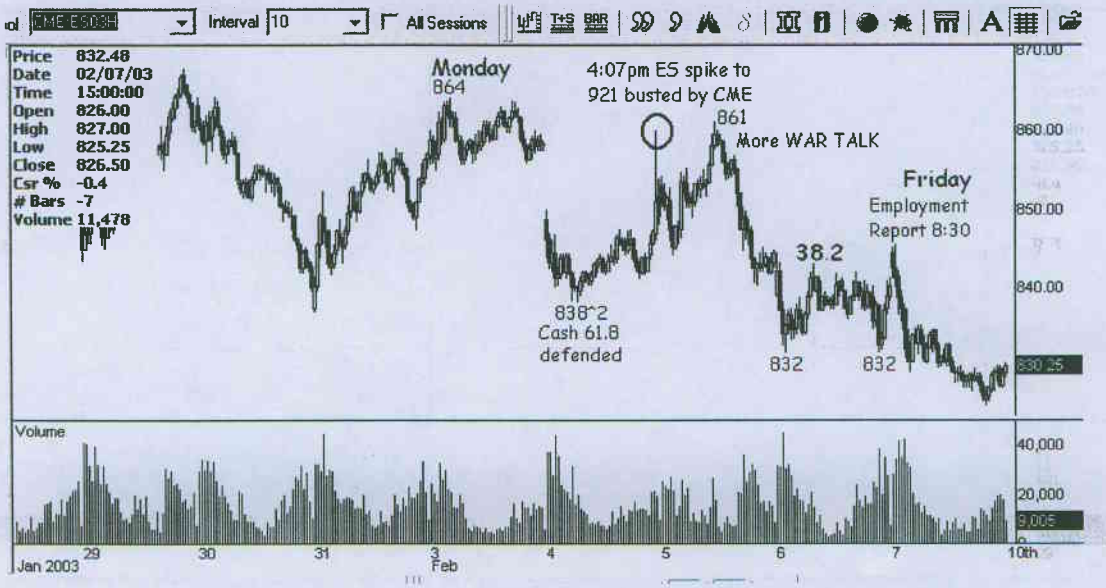
Sometimes you will find some odd-ball geometry intermingling with some more recognisable geometry in a different degree. I have a good example to show you in the next chapter but for now learn to pick up on the easy ones first.

Following is an excerpt from my diary I was keeping on the S&P:

This excerpt is taken way back in February 2003 when we were in a downtrend before the decision to go to war with Iraq was actually consummated. The coalition were building up forces as a sign of authority at the time but the mood of the market was negative at this time because the UN were objecting to any attack on Iraq until all the negotiations underway had been exhausted. Each day the uncertainty was growing.

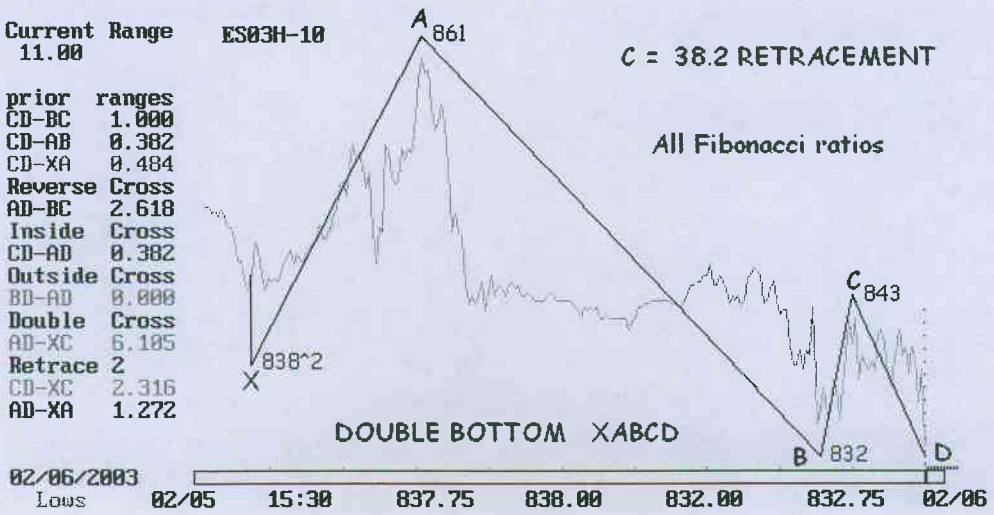
The main focus this week was on the geopolitical events and the rhetoric of George Bush and Colin Powell concerning the mounting threat of war with Iraq.

Nevertheless the technical's continued to unfold in their normal fashion. In fact some amazing signals came along throughout this week and I had to document them for my records.



On Tuesday the 4th just after the 4:00pm bell someone attacked the ES session with some large buy orders and set off a chain reaction that cleaned all the stops from 850 up to 920. The exchange announced it was "busting" all trades above 860. The pit had only traded to 854 so a lot of people got burnt.

There was a double bottom that occurred on Thursday afternoon and set up another trade the next day when the EMPLOYMENT REPORT was to be released at 8:30am. The X-ABCD ratios for the double bottom are below.



Overnight the Globex session traded up against the prior 843 high a couple of times while it was waiting for the morning report.

When the EMPLOYMENT figure came in at 5.7% down 0.3% from the forecast 6%. First indications were the market was accepting it as a sign the economy was improving, i.e., when it sparked a rapid rally. But this didn't last long as economists began to argue that the figure had been seasonally adjusted and was not correct. This information was broadcast over Bloomberg at the time.

The high on the spike rally was 849^4 – The first leg up from the double bottom was 11^6 followed by a 6 point correction (50%) and then another 11^6 up. The 61.8 level was at 849^6.

By the time the day session opened the print was back to 845.

This XABCD relationship was totally predictable after the double bottom at 832. Just look at the ratios in the X-ABCD print out they are perfect.

Friday was a down day from the opening bell. Terminating in a low of 825^2 at 3:00pm ET.

It was pretty obvious that there would be some short covering before the close as there was a heavy snowstorm in New York that had many Wall Street traders leaving early for the weekend.

I was expecting the market to go slightly lower based on a 1:1 with the 861 – 832 – 849^4 but now that I have inspected the daily picture the 825^2 low fits fine as a 1:0.500 down on the day. You must admit there was a great trade on the short side staring the smart traders in the face at the beginning of the day and they just did what they were expected to do!

LEARN TO OBSERVE THE MARKET ON A DAY-TO-DAY BASIS:

If you analyse the unfolding patterns each day you will find that set-ups become very obvious to the trained eye.

I get phone calls all the time from people who just want to learn all this as fast as they can. It is impossible to learn overnight and when I tell them they don't want to hear it. What can I do, I can only warn them that's all.

The average guy trading the markets is a moron when it comes to combining technical analysis, fundamentals and mood, most can't do it.

Most good traders are "Street Smart" and they have learnt how the wrong side of the market thinks and they just look for places to do the opposite to the "wrong side" most of the time. It is a good approach for intra-day trading.

You should educate yourself to do the same when the time is appropriate.

Section 2: Chapter 10:

Odd Ball Retracement Levels & Targets:

Under normal circumstances we are always expecting a standard ratio in retracements, e.g., 38.2, 50, 61.8, 70.7 and so forth.

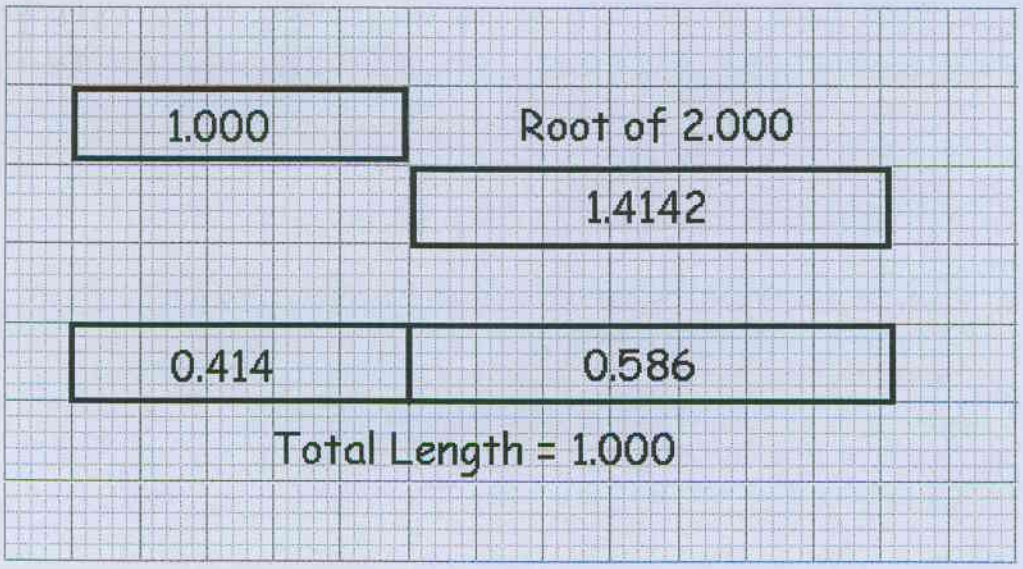
Many times the market trend may correct to a level that does not conform to our expectations yet the pattern will reverse and a new movement begins.

The geometry may be able to be explained by cross relationships but at other times it seems a mystery until the next change in trend where the picture becomes clear.

58.6 & 41.4 Levels

When you get levels of 58.6 or 41.4 these can be easily explained because they are the means (internals) of the square root of 2.

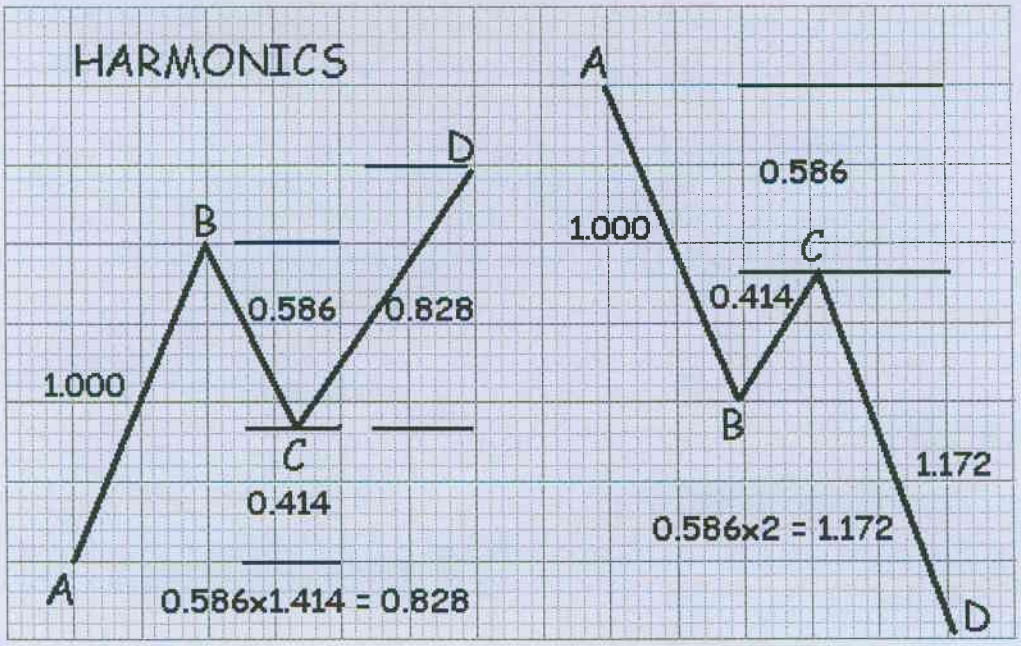
In geometry these can be explained as:



The market makes a 58.6 retracement and everyone is expecting it to go to 61.8 – so they wait. I always wait too, i.e., until I see a higher low or the pattern indicating a reversal.

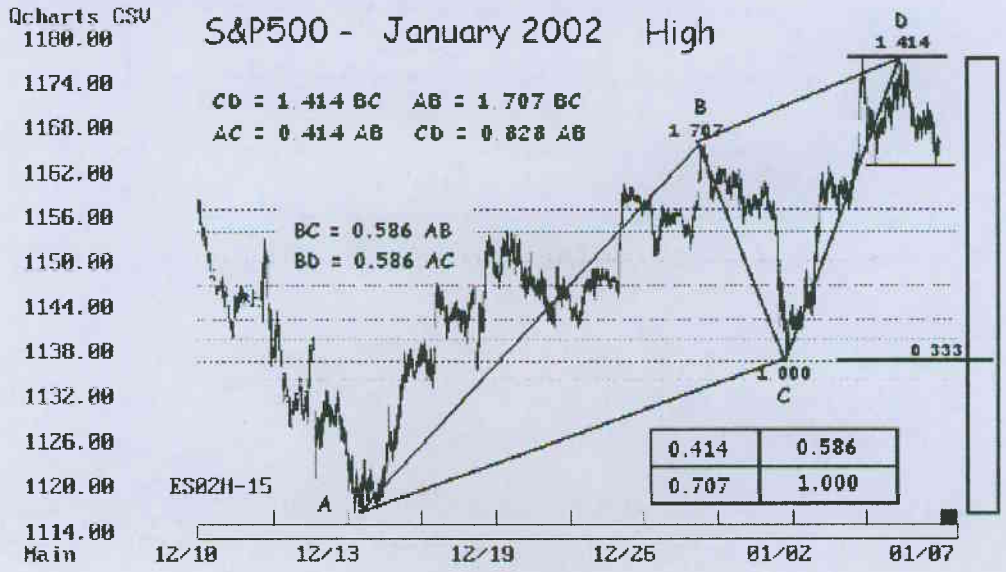
When something like this happens it fools everyone but it is legitimate and you can calculate out a future target where the geometry will "square" up in the future in that similar degree of movement.

Don't mistake a 58.6 level for a 57.7 because it is a 58.6 and indicates the market is working to the "square" in HARMONIC Ratios.

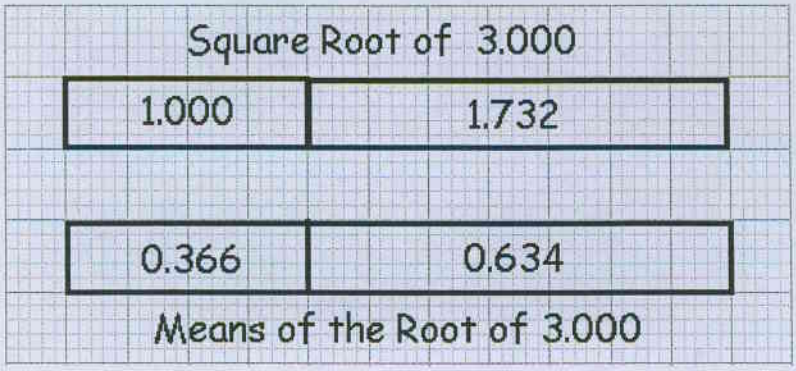


The UP Example:	The DOWN Example:
CD = 1.414 of BC	CD = 2.828 of BC
CD = 2.000 of AC	CD = 2.000 of AC

Here's one that marked a major bear market rally high in the S&P500 on the 7th January 2002 with a minor double top. The high day was even more impressive on a long-term ratio of 38.2 (see S2 C9 page 74).



Square Root of 3

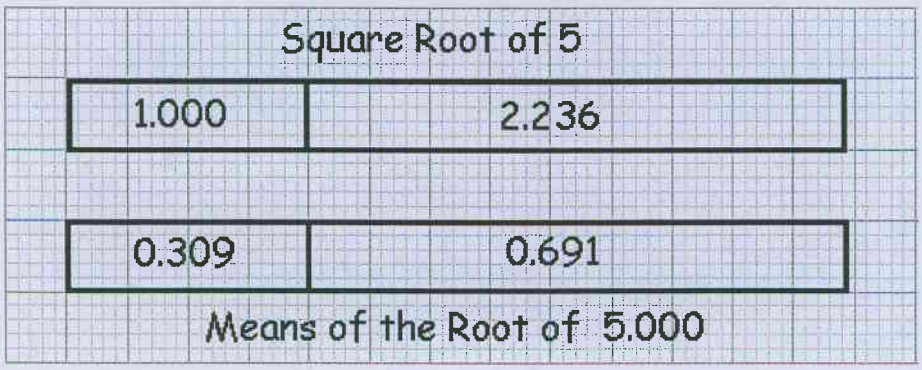


It pays to know all these things so you will save yourself some confusion. I bet everyone who has studied ratio analysis sees retracements that just go past the 0.618 level but stop on 0.634 or 0.636.

This is a common occurrence; the difficulty with 0.634 is deciding whether it applies to the geometry of Root 3 or to Phi as 0.636 is half the Square root of 1.618 which is 1.272. Sometimes in the smaller moves 1 tick would make the difference.

Better to stick with the 0.618 projections for ballpark targets - but keep it in mind that the geometry may be working on the CUBE. If it is the next leg might be 1.732 times the length of the 0.634 leg.

Square Root of 5



Same principle applies to the square root of 5 the mean 0.691 is so close to the 0.707 ratio we use as a cardinal ratio. The ratios are to close in many instances unless they are calculated on large ranges.

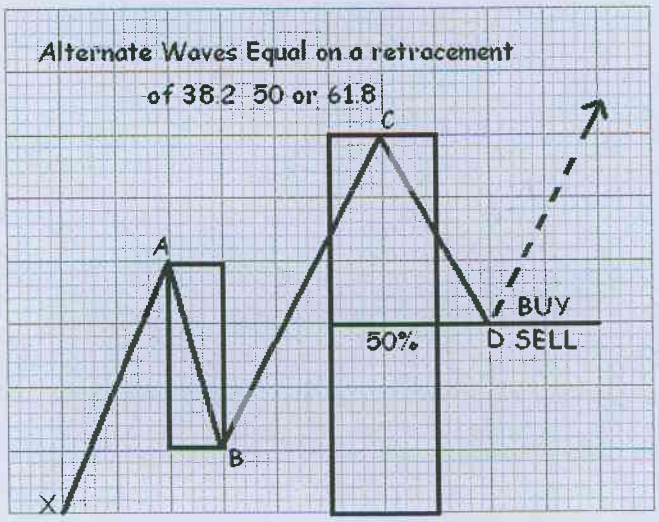
It is really necessary to understand the preceding STRUCTURE when you get down to this level of analysis. I only worry about these types of things when I can't explain the geometry any other way.

Section 2: Chapter 11:

Bread & Butter Trading Set Ups:

Although I have covered all these situations in prior chapters I am going to give you a summary of the market set ups I am continually looking for.

THE 1:1 ALTERNATE WAVE COMBINED WITH A SOLID RETRACEMENT LEVEL THAT EVERYONE CAN RECOGNISE:



This one is a money in the bank probability whichever way the market goes because you have the opportunity to buy into weakness in an uptrend and if the 1:1 does not hold you can reverse short almost immediately and profit from the continuation.

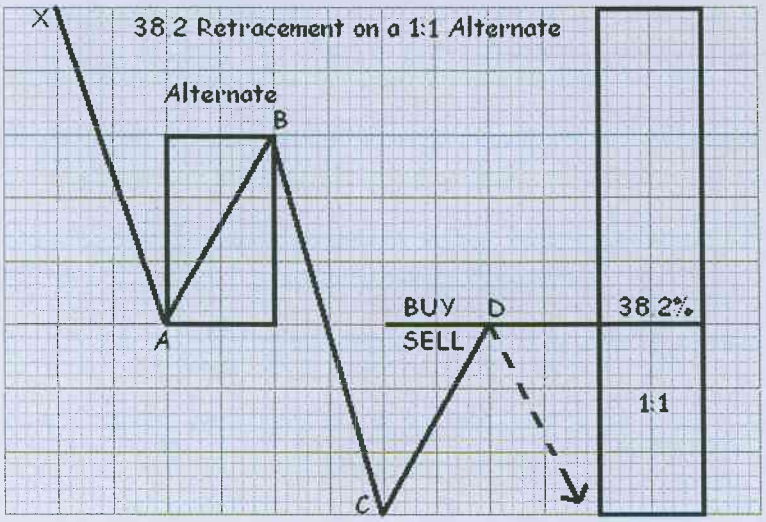
The probability of a reversal back up in a situation like this is in my opinion close to 90% if the 5 minute stochastic is reading anywhere near oversold and the 3 day swing is up.

If CD is also a retracement level of BC then the signal becomes even stronger. Also if CD unfolds as a smaller degree 1:1 you can nearly put the house on it.

Every one of these that you miss is tantamount to standing on a cliff edge and throwing your money away.

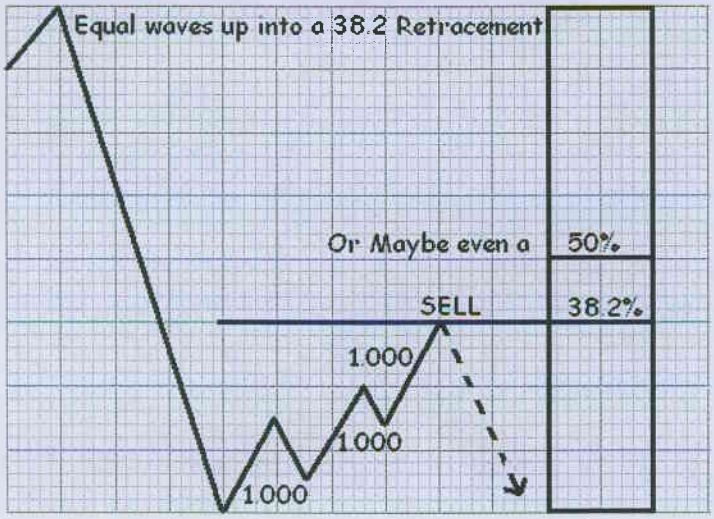
I see these situations come along very regularly in the intra-day market patterns.

THE 38.2 RETRACEMENT ON A 1:1 WITH THE 1ST ALTERNATE WAVE:



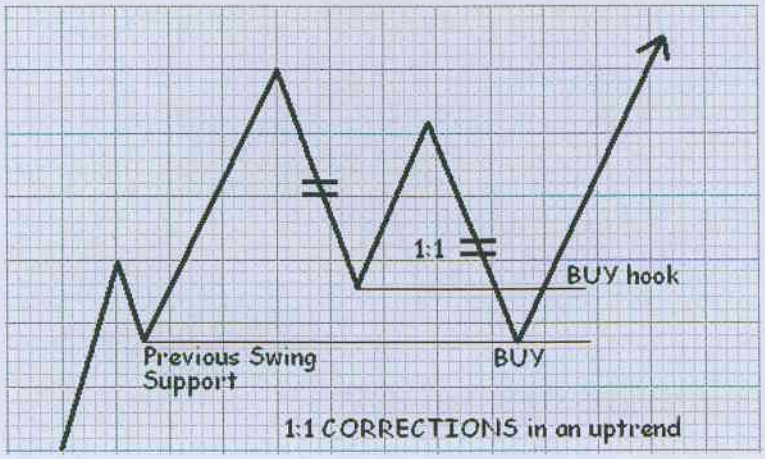
Never look a gift horse like this one in the mouth if the daily trend is down. The only time it is not likely to work is if the low at C was something major in the bigger picture.

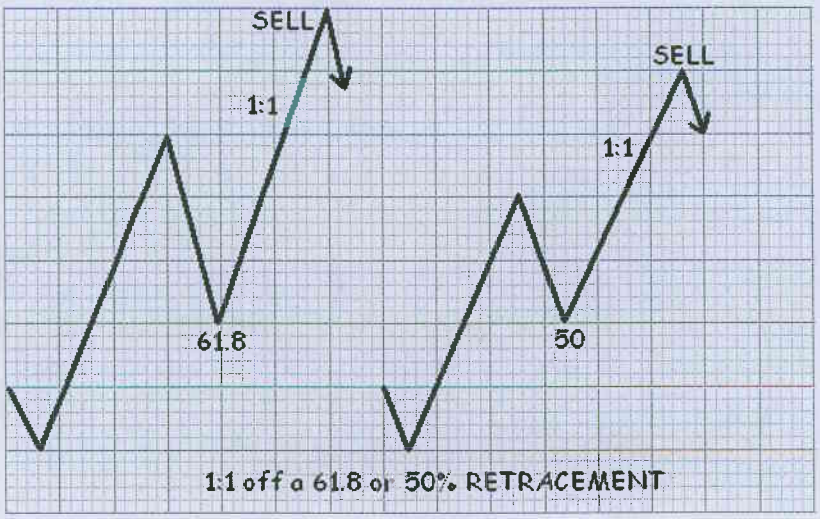
A 38.2 or 50% Retracement may even form like this example below where the waves up from the low are holding a form of equality.

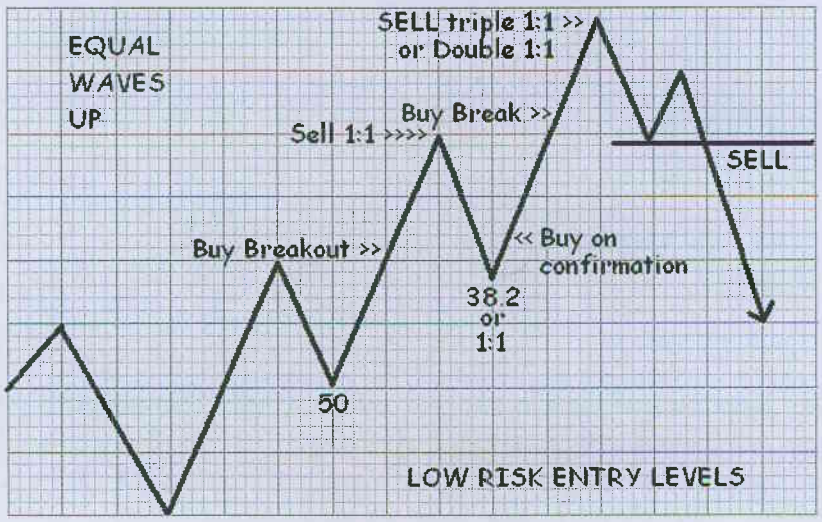


If you are planing to sell the retracement level you need to have some evidence that the move upwards is working into a geometric form that provides some evidence that it will exhaust itself at the suggested price retracement level.

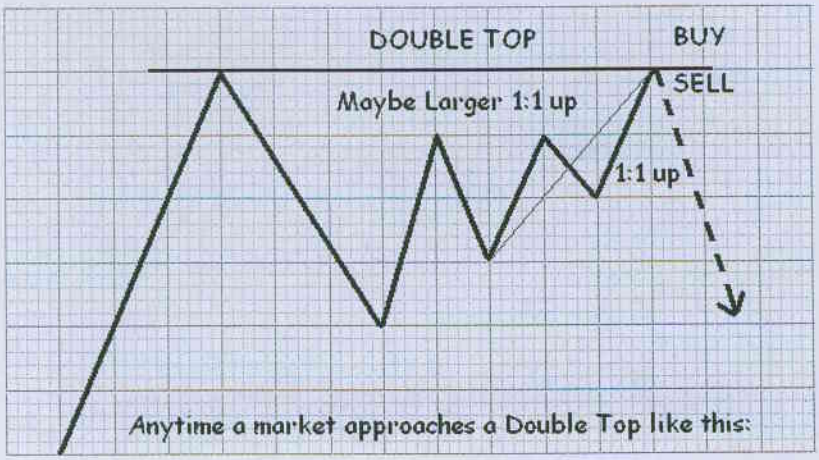
TRADING SET-UPS on 1:1's:







DOUBLE TOPS on 1:1's:



Trading set-ups on 1:1 alternate wave ratios are the strongest signals I know of.

It's a strange phenomenon that DOUBLE TOPS keep repeating in the market place so often, but they do, and you have to learn to take advantage of them when they line up with something else that seems to be important in the unfolding geometry.

Double tops that form without any obvious geometry should be taken cautiously.

The best way to handle them is to wait and see what the market does and if the top does not break the market generally tries for a retest. The market might break through on a second or third attempt but if it doesn't then you just sell the base below the double top.

DOUBLE BOTTOMS:

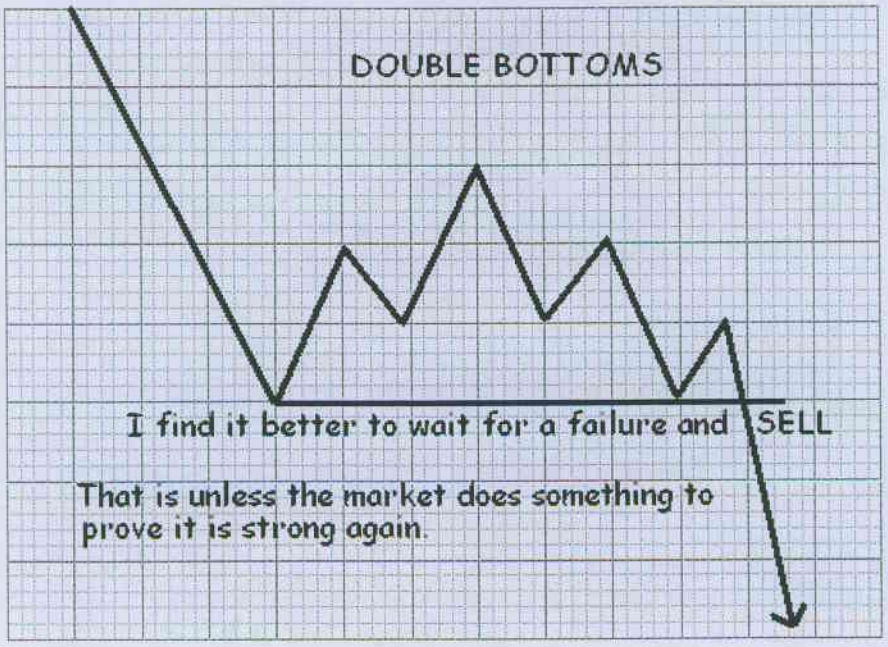
Normally for a double bottom to hold it has to have a foundation of geometric strength in its favour. Something such as a price level from a previous larger degree wave series. If it doesn't then it will most likely fail and it is better to be sold as a breakout trade to the downside.

If a double bottom is going to hold it normally won't run away from the low in a hurry so it is better in my opinion to wait and see if the market regains some strength before you buy it.

Once some pattern of rejection is recognised then you can begin buying so long as you can justify an unfolding strength on the chart.

The reason I don't like buying double bottoms is because all the smart traders prefer to sell when the market is showing inherent weakness, as it is more susceptible to failure than recovery.

There is no better trade around in my book than when a market takes out a double or triple bottom.


DOUBLE BOTTOMS
I find it better to wait for a failure and SELL
That is unless the market does something to prove it is strong again.

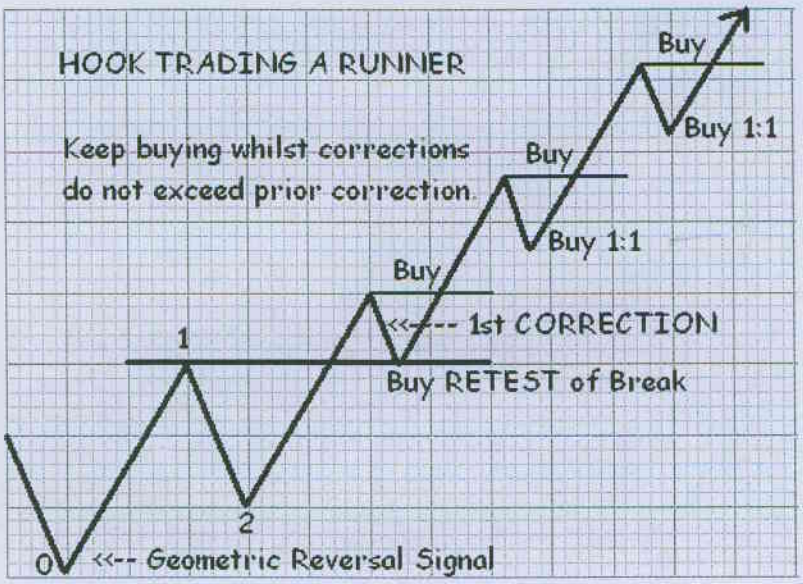
Better to trade the break of a double bottom than buy it. I have generally found in the past that important bottoms form quickly, they are normally a single bar low rather than a consolidation, i.e., unless they form within the middle of an upwards trending market and that is another matter altogether.

HOOK TRADING A RUNNER:

Some days the market will get into a running mood and you will slowly realise that it is not going to stop running. It may start off unexpectedly but once it gets moving you will see it happening.

You will know because the corrections will be very small and not last for very long. The ES / S&P seldom correct more than 2-3 points, maybe 4 maximum when a runner is in progress.

The easiest way to trade it is to BUY the hook breakouts but sometimes you could try and buy the small corrections while they remain less or equal to the previous ones in the series.

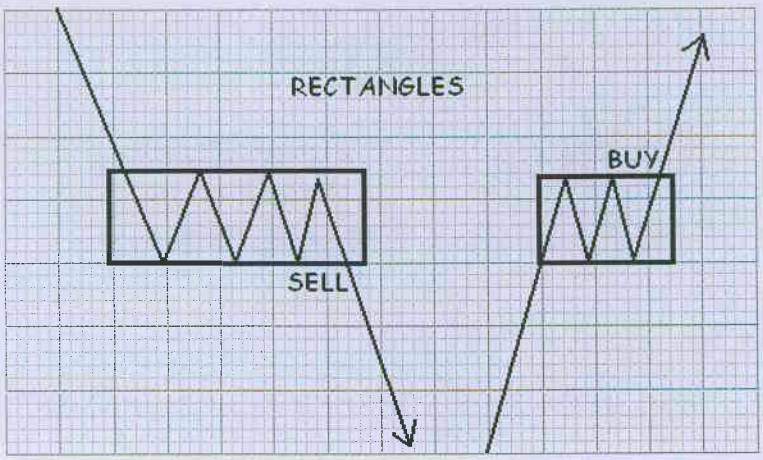


All you have to remember is that while the corrections do not over balance each other the trend is still intact and you can keep buying the breakouts with very limited risk.

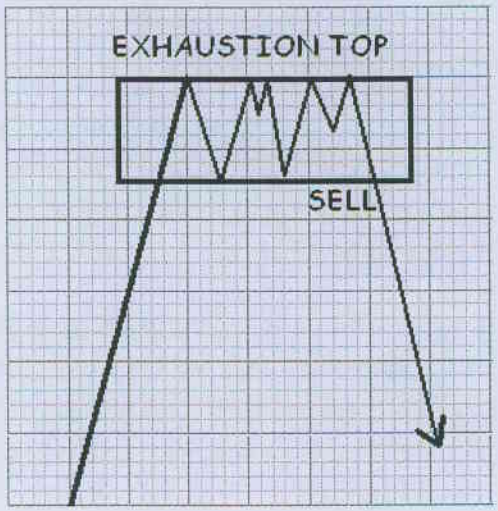
Runners will normally happen on days where the market is receiving constant positive news from economic reports or is being buoyed by the media and speculation from the pit. You have to be tuned into the news to see what I mean. This is why I am always watching Bloomberg during the trading day.

Runners can be very severe reactions in a market that has previously been extremely oversold and everyone is covering short positions on the day. If you are not prepared early enough you can miss the ride completely. Runners can last for the entire morning or afternoon session and on some days go all day.

RECTANGLE BREAKOUTS:



On occasions after an extremely strong run UP the rectangle may form as a series of tops. A bullish rectangle seldom has more than one double bottom so if the move looks like it is exhausting the best-case scenario is that it will reverse direction back down.

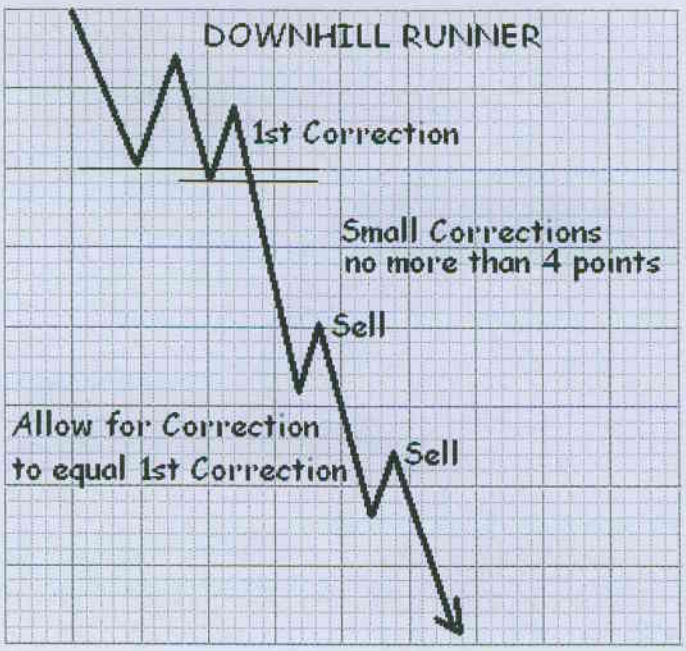


You should be able to recognise this situation well in advance as each attempt at a breakout to the upside is met with heavy selling by professional traders who don't think it can go higher.

In these situations the break to the downside will flush all the long positions and the move down should be very dramatic.

The conclusion should end with a SPIKE VOLUME bar as the shorts start taking their profits all together as they run into a nest of buy orders providing underlying support.

RE-ENTERING A DOWNHILL RUNNER:



Sometimes when you get a messy breakout and it is followed by a steep decline to confirm the market weakness, you may not be on the move. If you see a halt to the decline and the trend looks clearly down you can plan a re-entry with the trend based on the amplitude of the 1st correction in the series.

The next correction after a move shows trend should not exceed the 1st correction by more than 1 tick. You can always sell at the 1:1 back up with a tight stoploss or sell the hook on a further breakdown. I prefer to sell the 1:1 as it gives you some latitude if the next breakout down is a messy affair.

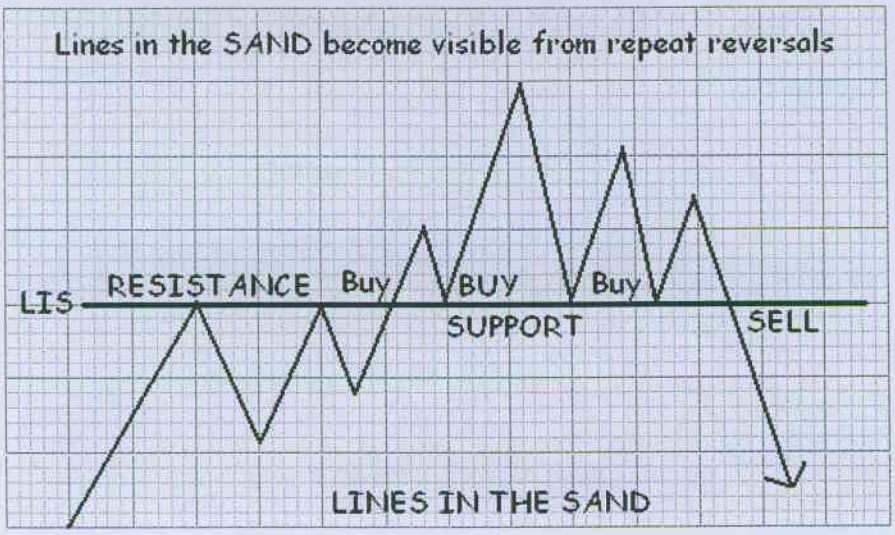
In all the years I have been trading I have noticed that the problem with most novice traders is that they deliberate for so long over where to take a trade they give no consideration to the fact that it is possible to step in and out of the market at will. If your risk is small you can practically enter a trend anywhere. When you combine high probability with small risk then you are trading to WIN.

If you take the time to study everything I am saying and watch the market in 5-minute time frames you will begin to understand what I am teaching you. After a couple of years it will become second nature to you and you won't think twice about it when all the pattern signals line up.

The trade entry techniques I have outlined in this chapter are your guide to becoming a professional trader, if you have faith and manage your trades properly you must WIN. Only the fear of losing will stop you from winning.

"The only thing easier than making money in the market is losing it." Anon.

LINES IN THE SAND:



Lines in the sand become obvious from time to time when an old market resistance turns into a support zone or vice versa.

It becomes a reliable technical level because it tends to become a decision point where traders will define the trend as either strong or weak. Although the criteria fits the double top or double bottom pattern it is even more important in a way as a trading signal because the LINE IN THE SAND virtually becomes the current BALANCE POINT for the market.

The best trades usually come when the market reverses back through the LIS at the beginning of the day on a GAP opening.

It usually makes a big difference to the support characteristics of an LIS if it has a price level of 38.2, 50 or 61.8 attached to it. For instance in this diagram if the market returns to the LIS and it is now a 50% retracement then the odds are much more in its favour to attract buying. It could even act as support for a second time as it becomes a double bottom on the 50.

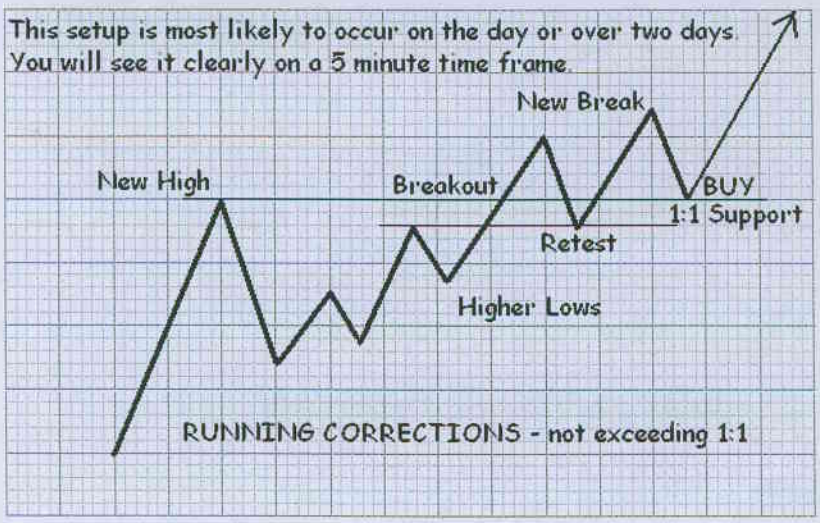
The above scenario then sets up the LIS for a SELLING BREAK OUT TRADE that has a 90% chance of success in my opinion.
In some circles this type of pattern breakdown could be viewed as a HEAD & SHOULDERS in progress. The LIS is basically the NECKLINE.

The tradable patterns I have demonstrated here are for short-term analysis.

Most of the time you would only need to take into account anywhere between 2 days to 5 days data on a 5-minute time frame to see the opportunity.

ONE MORE OPPORTUNITY THAT ARISES SOMETIMES:

This is an example of what can happen when the market is trying to break to new highs and becomes bogged down as it is shedding itself of the sellers in the way.


This setup is most likely to occur on the day or over two days.
You will see it clearly on a 5 minute time frame.
New Break
New High
Breakout
BUY
1:1 Support
Retest
Higher Lows
RUNNING CORRECTIONS - not exceeding 1:1

The same thing is possible in reverse on the downside but in the case where the market is struggling to make new highs it is far more likely to take time breaking out into clear ground.

When the new break is achieved after a couple of attempts the bears will relent and let it go. This normally results in a good trade for the day.

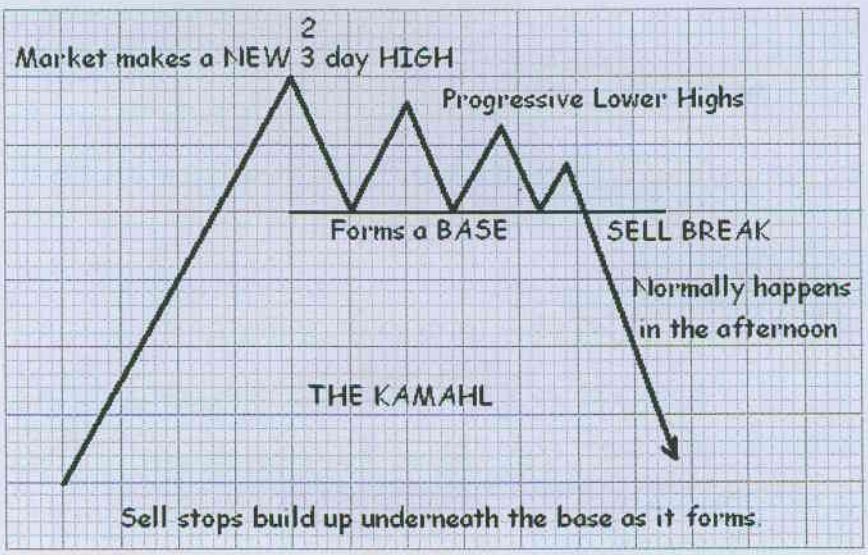
Situations like this tend to occur when the market is travelling into new ground where there is little to no technical levels that seem important in the bigger picture. The trend could be clearly overbought short term and that will attract the sellers, but when they try and sell the market down buyers reappear and take it back up.

Generally this sort of situation occurs on low volume days where there is no significant news to sway the previous trend in force.

The key to buying the running correction is that the second correction leg must not overbalance the first leg. The market should have a confluence of higher lows from the outset of the new move upwards. The only negative things that appear to be there will be the overlapping waves infringing on the old highs. Each time they do this and recover they send an arrow into the hearts of the bears.

Eventually as the day wears on the bears will run for the hills or reverse long and help the upward momentum gain pace.

THE KAMAHL:



Now the reason I call this the Kamahl is because it is so obvious. Kamahl is a famous singer and one of his popular songs had a verse like this, "I hear the sound of knocking it's coming down the hall..... has the sounds of goodbye....." The other reason is that Kamahl was such a sook, he used to get on stage and then ask the audience why they hated him so much! I met him once on the beach in Fiji.

The base does not need to be exactly precise as a triple bottom it could contain a false break on the 1st double bottom. The structure may even break down on the 3rd bottom attempt. But if the 3rd holds the 4th break will be curtains.

In the odd case where there is no break down from the base or the market does break it but gets back above the base quickly – it is showing new strength and becomes a buy. This is very rare but you still need to be aware it is possible.

The longer a market trades in a confined range then the ensuing move coming from a breakout should be large enough to offer a profitable trade. The reason is logical as the longer the market remains static the stops have a chance to build up just outside the congestion area.

Markets only move for one reason! There are more buyers than sellers or vice versa. When you can logically work out where they are placing their stops you will have mastered this business.

Always remember it does not matter what the market does over the longer period, just think of yourself as a JOCKEY looking for the perfect ride when the opportunity is present.

Section 2: Chapter 12:

Market Logic:

Market logic plays an important part in whether you will become a successful trader or just another fool floundering around in the fray.

Knowing when the signs set you up for the mechanical application is probably as important as the execution of the trade itself at the time.

Technicians wrote many of the books I first read on profiting in the market years ago and none ever went onto explain what was going on in the market when the time came to take the trade.

But what they all had in common was they said to be profitable you should always try and trade with the current trend in progress.

Let the trend be your friend was the common denominator I have read in most trading books over the years.

Well it is true, 75% of the time the trend will be your friend. Not so much the 1 month trend but the 3 day trend.

When the market is reacting to pressures from the most recent news it is trending or feeding on the current news available to it.

As a day trader this is all I need to know. It does not matter what the news will be in a month from now, what is in the news today, yesterday and the day before will be enough to judge what the market bias is likely to be on any given day.

To be a successful trader you have to continually keep your mind current with the events of the day and forget what happened last week, as that is over and done with.

Each day is a new day and the technical levels are clear before the market begins trading.

What is important to the trader is how the market reacts or confirms as it tests the predetermined levels of support or resistance.

The market activities will either agree with your thoughts or they won't. I take the view that when I have an opinion on the day the market will always keep telling me if I am on the right track or not. If I find I am out of step with what is happening I figure I better take a break or reverse my opinion. Believe me it only takes 3 small losses in a row to have me adopt this stance.

I'm going to tell you a few things that can happen to you on any given day and you will also find they will happen to you in the future sometime or another and you have to learn what to do when it happens.

1. You start the day believing something certain is going to happen. Then it doesn't so what do you do? Answer is – you step back and reassess the situation.

2. Some days you think the trend is intact but something comes along to wreck all your plans, so what do you do? Answer is – you get out of the market and reassess the situation.

3. **What ever happens that falls out of line with your thinking you fall back on the technical signals before you do anything else.**

If you want to win over the longer-term picture you have to have a plan that stops you from getting involved when things are not doing what is logical with your current knowledge of the market position.

Let's face it you could be totally off base with the market for some reason and the only clue that you are out of whack is when you start losing money!

So when you start taking losses forget your pride and get out immediately.

If you don't you are heading for the scrap heap where all unsuccessful traders end up.

I don't say this lightly either, I have seen all sorts of genius's come along to me and say, "Why are you sitting out of the market right now"?

Normally I just say, "I am uncomfortable with what is happening right now".

How many of them over the years have said, "I am staying in the market it must go to here even if it is choppy right now".

FAMOUS LAST WORDS!

I've heard it all before. Sometimes they get away with it but sooner or later that approach catches them out.

I am still here after 20+ years, so are many others, but I have witnessed 100's of bomb outs over the years even amongst the smartest people I know.

The plan is 3 steps forward and only one backwards at a time.

Every loser I have ever seen in the futures industry has one thing in common!

They took a position and held it when it was going against them. To make things worse they continued to believe that the position would come back so they topped up the margin to fund more losses. Eventually they could not fund the position any longer so they had to close out or the broker closed them out.

Then there were others who went and got some more money opened a new position and repeated the process. It was like they had lost their mind and wanted to prove they were right and the market was wrong.

The market is never wrong! Only people are wrong.

It is really enlightening to see what some people will do when they have an open position in the market. On the whole they are saying to themselves and everyone else that they have a winner going, even when they are so far underwater that they can't breath.

This is the reason you must never hold a losing position no matter what you think the market may do in the future. Because, as soon as you are underwater your brain cannot think objectively anymore. You become paralysed to act sensibly and only exacerbate the situation further.

I know because I have experienced it many years back, more than once I can tell you. Eventually I learnt from it.

From my experience in this industry I have seen many others do it as well – it is a fault everyone will fall into once or twice and may be able to survive but if you keep doing it you are a dead man eventually.

It is impossible to trade out of a losing position most of the time, which is why the losing trades must be cut at the first sign that they are not working.

It is far easier to wait for a better opportunity and try again than flog a dead horse.

The market will always be here for you, to be a winner you have to decide if you are always going to be here for it.

There is no other way!

If you want to be a consistent winner remember what I am saying because if you don't you might as well forget this business before it destroys you.

This business requires more self-discipline than the average man is capable of. I have provided the tools to shape your discipline; it is up to you now.